



The model of  
business incubator  
for vocational schools



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## BUSINESS INCUBATOR

# Table of content

<b>Table of content.....</b>	<b>1</b>
<b>Introduction.....</b>	<b>2</b>
<b>Business Incubators – general information .....</b>	<b>3</b>
<b>History of business incubators (USA and Europe) .....</b>	<b>4</b>
<b>Models of support.....</b>	<b>6</b>
<b>THE MODEL OF BUSINESS INCUBATOR FOR VOCATIONAL SCHOOLS IN POLAND .....</b>	<b>13</b>
<b>MODEL OF BUSINESS INCUBATOR FOR VOCATIONAL SCHOOL AT MALTA .....</b>	<b>50</b>
<b>MODEL OF BUSINESS INCUBATOR FOR VOCATIONAL SCHOOLS IN ESTONIA.....</b>	<b>73</b>

## Introduction

This publication is a result of two-year's collaboration between associates employed in „Entrepreneurship incubators” project co-financed by Erasmus+ funds. The aim of the project is to create a comprehensive support model for students and career school's graduates looking forward to establish their own business, the model which will lead young people in their professional career in order to meet labor market needs.

In the present economic situation the most important for employment's growth are activities aimed to increase entrepreneurial knowledge and skills among young people, vocational school's students and graduates. Frequently, in the beginning of their professional career they don't have required skills and motivation. They don't get necessary help or it is not enough to successfully enter free labor market. Preparation of young entrepreneurs to operate effectively on the labor market requires adapting complex and effective model and a set of suitable methods and tools of assistance. A solution for problems of young people entering labor market who want to establish their own businesses might be entrepreneurial professional incubators.

Entrepreneurial incubators are a sufficient method of supporting small and medium size companies and a great opportunity for young newcomers who plan to do business. Incubators helped many young people to create and develop their own enterprises. Their existence is lucrative both for entrepreneurs and public pursue. Incubators appeal to lower unemployment rates and stimulating economic situation. Positive beliefs among society become more and more frequent if they think that one could achieve success why isn't it possible for them<sup>1</sup>? In result of that, nowadays, more and more people planning to establish their own businesses take into account starting it in a business incubator. They share plentiful resources with partner companies. What is interesting is the fact, that continuing activity in a business incubator provides an opportunity to significantly preserve a businesses from its termination. Considering that, when the real sphere of economy is more and more affected by the global crisis, many companies seek for additional insurance in order to keep working on a competing market. Business incubators are one of possible solutions which support new, innovative companies in achieving their sturdy position and independence on the market.

Unfortunately, in the current economic situation there are not many business incubators strictly directed for students and graduates of career schools who would like to start their own businesses during or after they graduate.

Indicated coverage is a set of practical information, guidance and examples which could be implemented while establishing advantageous business incubators for students and graduates of career schools.

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<sup>1</sup> [www.bankier.pl](http://www.bankier.pl)

## Business Incubators – general information

### Definition of Business Incubator

A business incubator is an organization designed to support the successful establishment and further development of enterprises. It often offers access to physical business infrastructure, individually tailored business support services and networking opportunities.

Incubators vary in many ways, in particular in the scope of the incubation programs they offer, in their internal organization, in the economic sector they specialize in and in the types of clients they serve.

Business incubators (IP) is primarily a comprehensive economic institutions of different legal forms, supporting entrepreneurs in the creation of their business (incubation). They are also places where you have a range of surface to such enterprises, so that they can offer office space for rent or lease. Keep in mind that the impact of IP is primarily local / regional, although the use of non-regional tools and types of support activities. Action incubators reduces unemployment and positively determines the structure of employment in the region.

Business incubators, beyond the range of the surface, support new enterprises also through business support services (and therefore legal, financial, patent, accounting, etc.), Assistance with grants (less: financial) and help the entrepreneurs to contact other centers of innovation centers academic or expert consultation and evaluation of innovative projects. IP - especially locally - create the right climate in economic activity and the realization of innovative projects.<sup>2</sup>

To join the incubator is required business plan and assessed by the staff of the incubator high market potential. It is worth noting that in recent years almost half terms in recent years has decreased the number of applications, with significantly increased the level of preparation of specific projects. This is attributed to the increase in assessment standards and skillful risk assessment for certain projects by the candidates.<sup>3</sup>

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<sup>2</sup>[http://www.pi.gov.pl/parp/chapter\\_96055.asp?soid=4C61B781E1D845368CC56DFDC2741145](http://www.pi.gov.pl/parp/chapter_96055.asp?soid=4C61B781E1D845368CC56DFDC2741145) (pass: 10.08.2016).

<sup>3</sup> [file:///D:/41\\_osrodki\\_innowacji.pdf](file:///D:/41_osrodki_innowacji.pdf), s.79 (pass 10.08.2016).

## History of business incubators (USA and Europe)

The history of business incubators can be divided into three separate periods, however, the first world's business incubator was created in **1959**. In 1959, Joseph Manuscocreated **The Batavia Industrial Centre** in New York, offering new clients offices for rent to run their businesses and to create new jobs.

This was a starting point of three generations of incubators:

1. **First** (1959 – mid 80-ties.);
2. **Second** (2<sup>nd</sup> half of the 80ties – 1<sup>st</sup> half of the 90ties);
3. **Third** (1<sup>st</sup> half of the 90ties – present).

**The First Generation** started with the creation of The Batavia Industrial Centre; however, new ventures with similar profile appeared very quickly, also in academic centres (University City Science Centre in Philadelphia). Several factors contributed to such a situation, namely: the energy crisis in the 70-ties, the strategy of creating and fostering SMs introduced by the US government, the development of local economy and (later) the need to create innovative solutions through collaboration between research centres and enterprises. First business incubators focused mostly on subdivision of office space (for a small commission) and distribution of shared resources within the incubator so it focused on infrastructure.

The idea of business incubators spread from the United States to Europe, where the first BI was established in London in 1972 (David Rock). A decade later there were 12 such in the United States.

**Second Generation** faced totally different challenges: it concentrated on the transfer of knowledge from academic centres, supporting local entrepreneurs and fostering and providing new employment and, above all, developing sound business support services. Professional training, programs and coaching as well as services based on the transfer of knowledge were introduced. In 1984 the first national study on business incubators was done and a year later National Business Incubation Association (NBIA) was established in the US, thus training people who developed methods of measuring success of entrepreneurs in incubators (evaluation techniques) and assessed their economic and financial benefits.

An initially insignificant growth in the number of incubators was boosted by the intensification of the activity of US Small Business Administration between 1984 and 1987. Until the end of the Second Generation the number of incubators increased fifteen times, in which NBIA played its part.

By mid 1990s there were around 1500 business incubators in the world and 600 only in the US. The idea caught on outside the States and the Old Continent – namely in China (in the city of Wuhan, 1987). In Belgium European Business & Innovation Centre Network (EBN) associating incubators from all over Europe was created.

**Third Generation** drew experience from previous decades, adjusting to the reality of its times. Technological development, digitalization and –above all- the development of the Internet – influenced the development routes of the incubation idea. The second factor was the development of the knowledge-based economy and working regardless of resource scarcity. These two factors determined the current form of the incubators. The necessity of networking and a constant pressure from market as well as their severe competition changed the attitude towards participating in the BI, leaving behind stiff strategies of development and forcing to boosting market appearance (time-to-market).

A new concept of the time appeared that had a name of “**virtual incubator**” and a new, improved company management system with an increase in role and responsibilities of the company manager was introduced. BIs spread all over the world, they reached Africa, too (MENAinc, AIN, 2007). In 2007 the number of business incubators reached 5000, and in 2013 there were more than 9000 ones.

The first Polish incubator was established in 1990 and was supported by the World Bank (TOR#10 program) and the 2007-2013 National Development Plan Funds. Information on the history and prospects of BIs in Poland are analysed in part Q&A of this article.

## **Types and examples of business incubators**

Typology of business incubators is carried out based on several factors: the level of technological support, the scope and nature of its activities and due to the organizational structure. It is taken into account the incubation phase of activity, which will help incubators.

Two typical phases of incubation activity are identified as followed:

1. **Pre-incubation.**
2. **Incubation.**

Given the scope and nature of its operations, we can outline the following typology:

1. Economic development incubators (initiated by small entrepreneurs);
2. Social entrepreneurship incubators (initiated by the social economy entities);
3. Academic incubators (initiated by academic centers).

Due to the organizational structure (choice of legal personality), incubators can be divided into:

1. Foundations;
2. Associations;
3. Commercial companies - joint stock companies;
4. Commercial companies - companies.;
5. Budgetary units of public administration;
6. Mixed.

This division depends largely on the nature of the founders: foundations and associations are usually a selection of local social initiatives, commercial companies - partnerships and budgetary units of public administration - the result of the activities of local government.

This type of typology is largely dependent on the types of the founders: foundations and associations are usually a selection of local social initiatives; commercial companies - partnerships and budgetary units of public administration – are created as a result of the activities of local government. According to a report from 2014, there are also mixed incubators - of a specific legal personality, but founded by an entity other than the implied (commercial companies founded by local governments).

The level of **technological support** influences only the scope of functions and possibilities at the disposal of an incubator and which it performs, however, there is no such separate typology in Poland.

## Models of support

Business incubators support emerging business, offering specific resources. Models of support, which crystallize in the United States since 1958 and in Poland do not constitute a coherent strategy tailored to entities that support, but rather offer resources dependent on the specifics of the incubator. These resources can be roughly divided as follows:

### **1) Human resources**

It is qualified and unqualified staff scientists, experts, engineers, manual workers and administration.

### **2) Financial resources**

Seed capital, assistance in obtaining financial support from the local / regional loan fund, guarantee fund, assistance in obtaining subsidies, grants and subsidies.

### **3) Physical resources**

Laboratories, offices - offer surface. Specialized equipment and office equipment: computers, modems, printers and office supplies. In the form of donations, communal property or goods rented temporarily (with the specified date of return).

### **4) Technological resources**

Although the name suggests otherwise, to technology resources comprising the protection of patent law and protection of property rights (intellectual goods). Resources very important for incubators, research and technology.

**5) Organizational resources**

Patterns of organizational structures, mechanisms and methods of financial supervision, the hierarchy of positions, schemes procedures and practices.

**6) Social resources**

Created a network of contacts and associates - in the business (a network of partners, business relations) and in the scientific community (commissions, institutes, expert groups and the consultant).

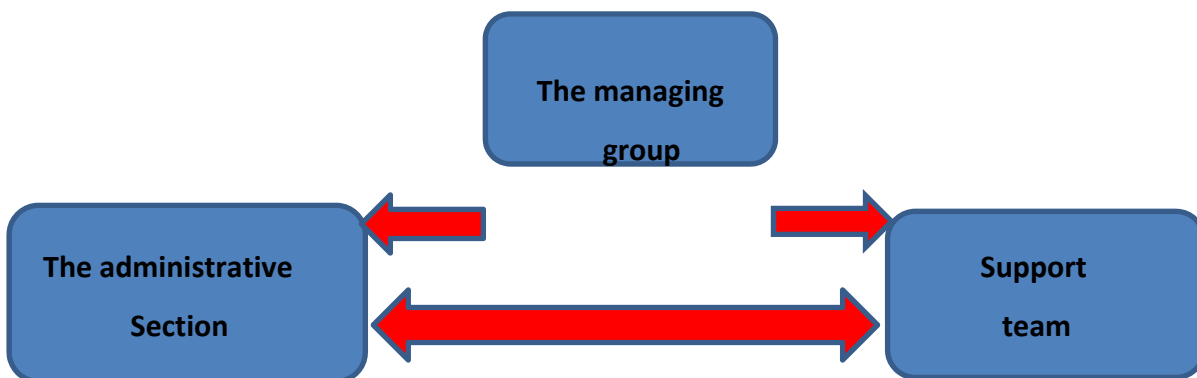
Of course, certain elements of the offer the incubator can be assigned as more than one type of resource at the same time - working for us influential scientist can represent both the human resource and social development. The most important resource is, of course, office space, which indicates the vast majority of respondents.

**The organizational structure of incubators**

The organizational structure of an incubator (whether it is a subsidiary or independent) must include the four aspects of its business intertwined with:

- Administration of infrastructure
- Supervision of financial entities
- Promotion of individuals and companies
- Providing substantive support for the incubated companies.

Organizational arrangement of a business incubator:



*Source: Individual study*



**Content support** is connected with the analysis of needs of advisory-consulting services, their organization, activities outline and evaluation of the degree of interest in the field of the incubator. Its main interest is organizing and providing pro-innovative and informational-support services.

**Informational-support team's** task is to provide information concerning incubator's services, available services and business oriented institutions on the local and regional level and providing basic substantive support in the sphere of advisory support in establishing and managing business activity, tracking problems requiring solution and organizing professional support for associates and incubator's clients.

**Pro-innovative service team** relates to consulting services focused on increasing companies innovation in the field of an incubator. Team's activity is to work with clients but as well to manage its own work or development and creating broad range of contacts on regional, national or international level of interest, in order to provide organizational support. It is also connected with implementing innovative solutions in a sphere of seeking for beneficiaries on a market.

Support team's duties concern as well processes of incubating technology that mainly consist of an active search of commercial ideas and lead to transforming the idea into practical technology.

**Administrative support service** involves executing activities connected with administration of the facility or financial and technical services. These activities on the one hand cover needs of an incubator, on the other hand they are directed to company-tenant's incubators.

Basic tasks of administrative support service are:

- Secretarial service of tenants and incubator; sending letters, conducting address book and a register of letters, telephonic and individual contact providing information about proposals.
- Organizational service; preparing documents for tenants: contracts, accommodation acceptance reports, keeping documentation connected with ISO, preparing documentation connected with help provided "de minimis": collecting declarations of companies, calculating the extent of help provided, preparing certificates concerning provided help, preparing quarterly and annual reports, monitoring legal activities.
- Technical support; arranging product repairs, technical inspections, renovations, remedies.
- Financial service for tenants; VAT invoice, reckoning of support and work of an incubator.

**Administrative team** coordinates activities in order to perform effective organization and work of an incubator, is responsible of financial stability enabling realizing its statutory goals.

What is more, it is to coordinate group work in an incubator, providing appropriate hardware and tools to realize tasks and meet necessary legal conditions. This department is responsible for a policy conducted both for tenants and incubator's environment in the local scientific and economic form, local authorities and public administration or other institutions working for entrepreneurs.

## **Resources offered by incubators**

For a satisfactory work of an incubator and effective service in the team, internal promotion directed to staff members is very important.

Primarily, elements of internal marketing are:

- Providing necessary supplies and organizations of a work place
- Work organization
- Recruitment and training of employees
- Type of payment and forms of appreciation
- Providing tools and hardware

Role of a person who administers work place in the institution is also to create bond between him and an employee. To reach high level of agreement between company and its members is one of basic requirements for providing high level standard of performed job.

Incubator is a community of subjects who located in it its dwelling. For that reason it is important to enable young entrepreneurs to spend time together, create favorable for networking environment atmosphere. Arena designated to be shared in the field of work should be organized in a way making it possible to develop informal bonds between tenants, it should create an atmosphere favorable to share their experiences and to cooperate with each other. Those criterions should be possible in kitchens, dining rooms, leisure areas, libraries, reading rooms, canteens and conference halls. The next very important thing is infrastructure of an incubator with provided parking place for business-tenants, crews, guests and green places arranged for a leisure time.

As for incubators it is important to pay attention to recruitment process of staff members, candidates should be neatly chosen taking into consideration not only their theoretical experience in the field of work but as well necessary interpersonal qualifications that will enable their competences to be intertwined with an ability of effective work with clients of the incubator<sup>4</sup>.

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<sup>4</sup> Adamska and Kotra: Kierowanie środowiska innowacyjnego w parkach technologicznych, PARP, Warsaw 2011.

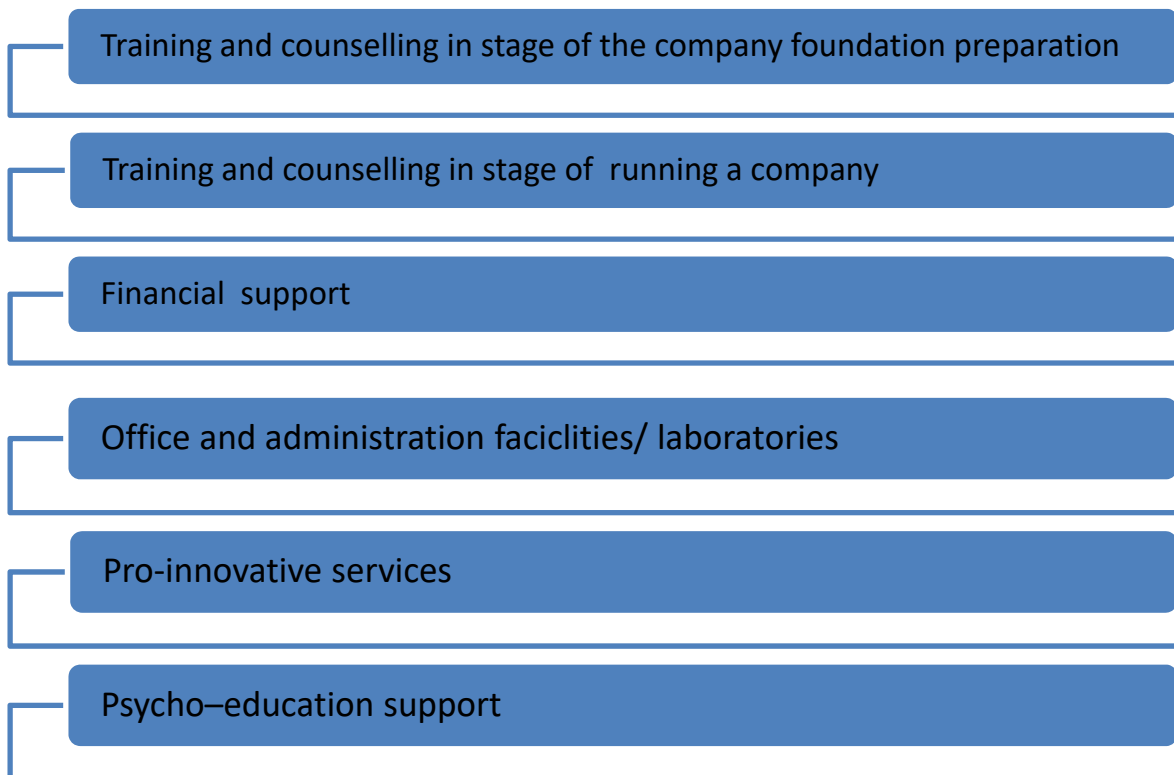
The scope of support for the people using the offer of Business Incubators results directly from the aforementioned range of activities of business incubators.

**Types and characteristics of resources offered by the Entrepreneurship Incubators**

Resources	Characteristics
Human resources	Talented researchers, engineers, technicians, entrepreneurs, lowskilled workers (porters, receptionists)
Financial resources	cash i capiatal resources indispensable for starting a business, f.ex. seed capital, assistance under the structural funds, permanent monitoring and control of cash movement
Physical resources	laboratories equipped with specialised equipment, offices, office rooms (fax, phones, computers)
Technological resources	The issue of the protection of intellectual property, patenting of inventions
Organizational resources	Organisational structures, routine, procedures regarding management, organization culture, accounting supervision
Social resources	Creating relationships and networks on the both entrepreneur ( network of industrial partners) and the scientific community level ( academic teacher, researchers, representatives of industry

Źródło: A. Lockett, A. Vohora, M. Wright, *Universities as Incubators without Walls*, "Entrepreneurship and Innovation", listopad 2002, s. 247

### The range of services provided by business incubators



*Source: Own resources*

The offer of Entrepreneurship Incubators usually includes:

1. Basic consultancy in early-stage companies, which includes issues such as:
  - formal and legal aspects of starting and running a business
  - advice on developing a business plan, creating an offer
  - searching for sources of financing for development
  - searching for business partners and promotion of a company on the domestic market and possibly foreign markets
  - networking and integration services
  - consultation regarding projects and project proposals under the EU Structural Funds
  - organization of foreign missions, conferences, information days, seminars and training for entrepreneurs in the field of offered services.
2. Pro-innovative services. The professional support provided by incubators is supplemented by pro-innovation services, which are services aimed at the development of the company by improving the existing or implementing a new
3. Providing technical infrastructure including:
  - usable area

- research facilities
  - office equipment
  - access to broadband Internet
  - parking facilities
  - leisure and social facilities
  - accessibility by public transport.
4. Marketing services. Promotion is the way in which the institution provides its clients with information about their offer. The primary task of promotional activities is to inform about the organization and its offer, and their implementation is dependent on the budget that is available to an incubator, type of service that is going to be promoted, a group to which the offer is directed and the activities of the competition. The promotion is usually conducted using advertising and public relations.<sup>5</sup>

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<sup>5</sup> <http://www.ppnt.gdynia.pl/eppnt.html#e-Inkubator>

**THE MODEL OF BUSINESS INCUBATOR FOR  
VOCATIONAL SCHOOLS IN POLAND**

Europejski Dom Spotkań – Fundacja Nowy Staw

Lublin, Maj 2016

## Table of content

<b><i>Analysis of existinb business incubators</i></b> .....	<b>15</b>
Economic development incubators.....	15
Social entrepreneurship incubators .....	15
Academic entrepreneurship incubators .....	16
<b><i>Legal forms of Business Incubators</i></b> .....	<b>18</b>
Incubators in local government units - legal characteristics .....	18
Business incubators at vocational schools.....	20
Business incubators created by the local government.....	21
Recommendations.....	22
<b><i>Possible forms of financing Incubator activities</i></b> .....	<b>23</b>
Sources of financing for beneficiaries .....	23
Sources of financing for business incubator .....	28
<b><i>Support offered by Business Incubator</i></b> .....	<b>30</b>
Support tools in business incubators: .....	30
Phases of development of business incubators and scope of support .....	31
Methods of work in a business incubator .....	33
Suggested length of support in business incubators.....	36
<b><i>Training for staff working in Incubators</i></b> .....	<b>38</b>
Methods and scope of training for staff working in the Incubator.....	38
Training methods for the personnel working in the Incubator .....	39
The scope of training for staff working in the Incubator.....	41
Training that should be taken by the employees of the incubator:.....	42
<b><i>PRACTICAL INFORMATION – Q&amp;A</i></b> .....	<b>46</b>
<b><i>Bibliography</i></b> .....	<b>49</b>

## Analysis of existinb business incubators

### Economic development incubators

It is a basic type of incubators; it is very often treated as implied/default. Its main objective is to eliminate differences of any economic nature, typical of some regions, often by using technological facilities. The scope of their operations and activity involves creating proper entrepreneurship attitudes through training and courses as well as providing employment, mentoring and eliminating the risk of bankruptcy of SEs.

**Stowarzyszenie Wspierania Rozwoju Przedsiębiorczości ZiemiŚwieckiej<sup>6</sup>** (*powiatświecki, Poland; since 2000*)

The statutory activities of the association include supporting economic and social development, in particular the development of rural areas (agricultural activities) , rural tourism and education; promotion of employment and professional activity; training activities and financial support to NGOs and local governments .

These operations are performed within the mainly in *Act Locally Program* (8th edition) , which subsidizes projects related to the promotion of active recreation (horticultural therapy, hiking trails, floorball ) and the organization of cultural events. Other activities include annual language courses, rural mini - incubators, accounting courses and the creation of the Municipal Information Centre.

### Social entrepreneurship incubators

Their main objective is to stimulate activity and provide support for companies that offer jobs to people socially excluded. This involves eliminating social differences and the integration of the socially excluded. The profile of SEI activity primarily involves training activities (coaching, mentoring), creating jobs and providing financial and technological support as well as professional consulting for companies and projects that are aimed at creating equal opportunities in the labour market.

**Social Entrepreneurship Incubator in Dąbrowa Górnicza** (*Dąbrowa Górnicza, Poland: since 2010*)

This incubator started as a specialized unit of the Office of Non-Governmental Organizations of the City of Dąbrowa Górnicza and is financed by the European Union. Due to funding from the European Social Fund, it is possible to obtain professionals advise of experts on social economy and getting help in financing projects. The incubator is currently applying

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<sup>6</sup> Informacja pobrana ze strony Inkubatora: <http://www.inkubator.com.pl/> (dostęp 14.11.2015).



for accreditation. The activities implemented so far we can distinguish a permanent offer of training on the establishment of social cooperatives, project implementation and raising funds for projects. The incubator is also involved in many other activities, such as the Global Entrepreneurship Week.

## Academic entrepreneurship incubators

Often listed as subcategory of scientific and research incubators, academic incubators are set up in academic centres and focused on students. In contrast to the majority of incubators, they primarily concentrate on the process of pre-incubation. Their targets are often new technologies and patents, so the basic facilities offered by them to entrepreneurs are technological facilities. The conditions of running business in academic incubators - as compared to other incubators - are the least demanding.

Quoting the report:

*Academic entrepreneurship is related to the definition of an entrepreneurial university which, considers merchandizing of know-how as its mission, equally important as its research and educational activities<sup>7</sup>.*

In order to achieve it, the incubator must contribute to the creation of a culture of innovation and support the academic enterprise. The activities of the AEI are often called spin-offs created by the laboratories and institutes (spin - off). Academic business incubators often work closely with other centres of innovation - clusters or centres of technology transfer (CTT)

Activities taken by the academic incubators are primarily comprehensive mechanisms for the promotion and activation of academic circles - promotional campaigns, specialized training, and organization of competitions - as well as creating a network of external contacts, expert consultations and establishing centres of academic creativity.

There are more than 50 academic incubators in Poland and as a result of its activity 7,000 startups have been created so far<sup>8</sup>.

### **Business Incubator at Lublin University of Technology<sup>9</sup> (Lublin, Poland: since 2007)**

Business Incubator at Lublin University of Technology is a university organizational unit of Lublin University of Technology. Its aim is to facilitate and promote the idea of entrepreneurship in the academic circles, awakening the spirit of entrepreneurship among young people and support young entrepreneurs. So far 350 companies benefited from the

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<sup>7</sup>Report 2014, s. 55.

<sup>8</sup>Information from : <http://inkubatory.pl/o-aip/> (dostęp 14.11.2015).

<sup>9</sup>Information from Business Incubator at Lublin University of Technology:[http://inkubator.pollub.pl/\(dostep 14.11.2015\)](http://inkubator.pollub.pl/(dostep%2014.11.2015)).

support of the incubator and 145 companies were incubated. The incubator obtained almost 2 million PLN for the implementation of EU projects.

**Academic Entrepreneurship Incubators in Bydgoszcz<sup>10</sup>** (*Bydgoszcz, Poland: since 2004*)

The incubator has received numerous awards at national and European levels ( "Regional Leader of Innovation and Development in 2011 ," European Medal for Services for Quality ) . More than 250 companies passed the pre-incubation period passed thanks to AEI in Bydgoszcz. Academic Entrepreneurship Incubator in Bydgoszcz operates at four universities, including the University of Nicolas Copernicus. The incubator offers a program Benefits4Business (discount offer for training, SEOs, etc.), organizes competitions (100nabiznes.pl) and an annual Business Academy. It encourages its partners to cooperate, offering e.g.: advertising and cooperation among students of renown research institutes.

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<sup>10</sup>Information downloaded from Akademickiego Inkubatora Przedsiębiorczości w Bydgoszczy:  
<http://www.aip.bydgoszcz.pl/> (dostęp 14.11.2015).

## Legal forms of Business Incubators

### Incubators in local government units - legal characteristics

Incubators created by local government units are based on the provisions of the Act of 8 March 1990. Local Government (i.e. Journal of Laws of 2015, item. 1515), the Act of 27 August 2009. Public Finance (Journal of Laws of 2013 , item . 885 , with later amendments), the Act of 6 December 2006 on the principles of development policy (i.e. Journal of Laws of 2014 , item . 1649, with later amendments, resolutions and ordinances of the founding entities with particular adjustments to the regulations and statutes as well as, depending on the form of activity, under the Regulation of the Minister of Finance dated 7 December 2010 on the financial management of budgetary units and local enterprises (I.e., Journal of Laws of 2015 , item . 1542) or the Code of Commercial Companies (Journal of Laws of 2013 , i.e. item . 1030,with later amendments).

When we analyse legal aspects of such involvement we should also bear in mind the provisions relating to state financing. Incubators are different as they do not benefit from the support but only transfer the funds further. Entrepreneurs and others entities utilizing state or local funds are the real beneficiaries of the money, as they benefit from the state or local government support. According to the European Commission Decision of 3 May 2005 concerning a State aid which Germany is planning to implement for the development of municipal infrastructure to apply directly in industry „neither the centres nor their managers receive an economic advantage nor can themselves be regarded as aid beneficiaries but only as vehicles for making the assistance available to users”. Therefore, in case of business incubators by the unit of local government we cannot assume illegal state support.

As I mentioned before, there are many examples of the local government involvement in the creation of business incubators on the national level. Nowosądecki Business Incubator established in 2003 can be an example. The establishment project was carried out as a part of the Voivodeship Contract Funds allocated by the marshal and from the municipal budget in order to create instruments to support the creation of new jobs for the unemployed. It was meant to be implemented through the incubation of new and the development of existing small and medium enterprises, fast incubation of new businesses and to support for all social undertakings allowing for mitigation and removal of negative effects of unemployment. Additionally, another goal was activation of the disabled.

The incubator from Nowy Sacz is a municipal budgetary entity. It operates based on a range of services offered to entrepreneurs such as promotion of the city and the region in terms of economic activity, renting space, rooms and/or area appropriate to running business activity to micro- and SMEs or participation in fairs and business exhibitions. An incubated company signs an agreement which specifies mutual rights and obligations of the parties. Organizational Regulations of the Incubator and common provisions of law standardize the remaining terms of cooperation between the partners.

Kluczborski Business Incubator is another example of the incubator created by the local government. It was established in 2012 on the initiative of the district of Kluczbork, within the framework of the project "Supporting the growth of the economy through creation of the district of Kluczbork Business Incubator". The range of services is similar to the incubator in Nowy Sacz. It mainly consists in renting business space, office equipment, leasing professional administrative and secretarial services, business consulting and raising funds, including the EU funds. The next stage of cooperation involves legal assistance, accounting, liaising with other entrepreneurs (to enable networking, and making clusters), or facilitating access to finance through regular meetings with representatives of banks and venture capital funds.

Likewise, but this time in Bedzin, Będziński Business Incubator was established by the county. It was created within the framework of the project developed by the Local Government team financed with "Fund for Silesia" funds and the abovementioned county. The offer includes: providing office and industrial rental space tailored to the needs of individual companies, providing professional advisory services facilitating entrepreneurship, assistance in obtaining EU funds and organizing training on business activity.

Many other incubators operate by the local government all over the country. These include: Pomeranian Business Incubator, Cierzno Business Incubator or "ProStartUp" in Olesno. It is pointless to describe them further as they have a similar spectrum of operations.

## Business incubators at vocational schools

The topic of creating incubators at vocational schools is complex. It depends on the circumstances - whether we are talking about a public or private institution. It is also important whether the incubator would be financed with local government funds, from external funds or at the initiative of another entity. The question of the recipients of the project is an additional thing. You have to answer the question of whether the incubator will be created for students of vocational schools or also for their graduates.

Let us take Art. 21a Section 3-4 of the 7 September 1991 Act on Education System (i.e., J.L.2004.256.2572) as a starting point for further discussion. Generally, schools and institutions make necessary efforts to create the best teaching, educational, supervisory conditions and to perform other statutory activities, to provide each student with necessary conditions for their development, to improve the quality of services provided by school or institutions and its organizational development. These activities can, for example, be implemented by creating conditions for students' development and activity and cooperation with parents and local communities. Students' motivation can have many forms, and there is little doubt that it can also involve activation through establishing a business incubator in the school.

A public school is a municipal budgetary unit. Therefore, it can spend only as much money on its statutory activity as is handed over to it by the local government. Thus, a local government would be sponsoring the creation of a business incubator. The situation is quite different in case of a private entity. Private schools conduct commercial activities. Their operations are financed from grants and private owners' funds so the choice would be theirs whether it would make sense to create such an entity.

The act undoubtedly shows that the abovementioned consideration relates to activation of students. Therefore, incurring establishment costs would be unreasonable if startups for graduates were to be created. Would it, however, be in all cases? Certainly, it would be in case of financing by the local government units. However, there is still a possibility of obtaining funding from external sources, mainly the EU funds. If, therefore, a given project, under which an incubator is created, assumes the possibility of participation of vocational school graduates, there should be no formal and legal obstacles to implement it.

If it is possible to establish units described in the previous paragraph in public schools, it is even more possible in privately - owned organizations. In any case, such schools are active in applying for external funds where possible.

An incubator whose objective is only to boost students' activity, requires appropriate housing conditions. If the entity is established on the initiative of schools, they should be able to provide it with accommodation. In case of co-financing with external funds, the budget of the project should take into account the cost of the lease. Likewise, when another investor considers renting a place. In principle, it is the headmaster who has the right to manage the property of a given school. It is defined in the abovementioned Education Act. However, we must remember that relevant local authorities must give their consent - in a form of a separate

act - for school to hire any of their premises if the rent period is longer than three years. Some educational institutions have internal procedures that disallow concluding rental contracts for the period longer than specified in their regulations, say one year. Thus, a potential originator should reconsider the schedule and ensure appropriation of adequate logistics infrastructure well before starting an incubator.

Likewise, he/she should review legal and organisational forms of the entity. It seems that we cannot talk about any specificity in case of incubators operating by vocational schools. This type of incubator may both be a foundation and a commercial company. It uses school infrastructure and HR on commercial bases, developing students' abilities at the level of economic activity. School incubators will be more limited in this respect. If they operate within the scope of the activity of a given school, fulfilling its statutory objectives as an educational institution, they will not constitute a separate entity. The school, as mentioned before, is a budgetary unit of the local government units. Advantages and disadvantages of such a system will, in a way, be similar to those discussed above - incubators operating by the local governments units.

Incubators are often created by universities. There are numerous examples that can be mentioned. It is more difficult, however, to give an example of this type of entity operating at a vocational school. An interesting structure was established in Sławno, where in 2004 a Vocational Training Body called "Business Incubator in Sławno" was established. It is a non-public institution run by the Association for the Development of the District of Sławno. It is registered in the register of schools and private institutions run by the Head of Sławno and the entry into the Register of Training Institutions administered by the Regional Labour Office in Szczecin. The institution offers a variety of courses and training, including cram courses on starting and running small businesses.

## **Business incubators created by the local government**

In previous paragraphs we discussed what forms of business incubators can be established by local governments. It has also been mentioned that incubators can have a general profile - and such are most popular - or a professional one. The latter associates entrepreneurs operating in the same field of business.

So if it is obvious that the founder of the incubator has some kind of freedom in a subjective and objective choice of recipients of the project, it also seems obvious that self-government can create it by choosing a target group of students and graduates of schools, including vocational schools.

After all, it is the founder who sets selection criteria. There can be no doubt about this. In case of local government units there is one thing that needs to be remembered - they should

work to implement their tasks as a municipality, district or province. A particular activity must, therefore, as a publicly sponsored, fit into the strategy of the unit exercising its power. We do not need to look far, however, as even the task of preventing unemployment is the responsibility of both the county and the region.

These considerations relate to local governments at every level. The Act on Local Government, district and provincial authorities gives a lot of room for such an activity. They can be financed both with individual funds and external ones.

## **Recommendations**

If one wants to recommend potentially the best organizational form of operation of an incubator based in school, I would, initially, recommend it should not operate only as an organizational part of the business school. I would argue against any school creating an NGO which would administer an incubator. In both cases, it seems that the founding body in a natural an unnecessary way would limit potential support only to a group of students of a given school. The possibility to use technical potential will also be limited to this particular school.

An incubator founded by the local government seems to be a potentially effective entity. If you plan your activities at school, I would advise that a local government foundation providing support to students but also graduates and people outside this closed group is established. The founding body with a lot of resources and status, would also be a kind of anchor for the business incubator, on the other hand, it would provide a lot of opportunities to obtain financial support in the form of external grants. An NGO form of operation would prevent a potential politicisation of the activities of the entity.

## Possible forms of financing Incubator activities

Even the best business concept cannot develop smoothly without an adequate financial support. Lack of knowledge about the possibilities of acquiring capital funds or sufficient cash needed to invest in a new business (for example for the development of infrastructure, purchase of equipment) and a long time of waiting for payment of partners' (or clients') liabilities may slow down or interfere with the speed of the development of young companies (for example, in terms of production, range of services) and negatively affect its market competitiveness. Budget support of a newly formed business ventures significantly affects not only the dynamic development of an innovative product or service, but also the smooth functioning of the economy through increased rates of entrepreneurial activity, employment growth in the industry, the growth of consumer inflation, wage growth, etc.

### Sources of financing for beneficiaries

A young man with an original idea for their career and an exciting business concept does not have to (at least at the beginning) invest their savings. Many options available on the market today offer new opportunities for raising capital for starting and operating a business. Starter, BizNest, Crowdfunding, seed capital funds (Venture Capital), startup platforms, Business Angels, as well as Labour Offices, Regional Operational Programmes offer their help in acquiring grants for start-ups and companies being already on the market.

- **Grants from the Labour Offices (LO)** - Every young, aspiring entrepreneur who is planning to start their own business can apply for a grant from the Labour Office. Typically, the time during which a beneficiary is required to conduct business activities is at least 12 months. It is impossible to simultaneously apply for a grant from the Labour Office and other sources for legal reasons of individual projects. The financial support offered by Labour Offices is in the form of non-refundable grants. *The amount of funds from the Labour Office is dependent on the average salary in the enterprise sector and ranges from 4- to 6-fold of this remuneration. Currently (as of Q1 2016), the average wage in the corporate sector is PLN 4201.57.*<sup>11</sup> The amount of the **grant** depends on the amounts that individual Labour Offices received for this purpose, and the detailed information is contained in the regulations of different agencies. Guarantors must secure the receipt of funds - two people who handrail for the beneficiary and, in the case of suspension or closure of operations before the end of the year, would pay back the Labour Office the full amount of the grant received. Other possibilities for securing grants (depending on LO) include, for example, bank guarantees or frozen funds on a bank account of the young entrepreneur. The grant

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<sup>11</sup> Source (11.07.2016): <http://stat.gov.pl/sygnalne/komunikaty-i-obwieszczenia/lista-komunikatow-i-obwieszczen/obwieszczenie-w-sprawie-miesiecznego-wynagrodzenia-w-sektorze-przedsiębiorstw-bez-wypłat-nagrod-z-zysku-w-i-kwartale-2016-r-,59,10.html>



for the purchase of necessary equipment, materials, software or repair of the premises, should be spent within 30 days of its receipt. The requirements that must be met include preparation of a substantive, complete and well promising for the future business plan, undertaking necessary training and consultation on how to run a business, age below 30 or above 50 years, unusual situation on the labor market (for example, person with long-term unemployment - registered at the Labour Office, women who have been unemployed since giving birth, unemployed people with disabilities). When considering applications, the degree of preparation for conducting a planned business, its economic viability, experience or professional education of a person applying for a grant in accordance with the planned project (confirmed by relevant documents), the results of the initial visit to the site where the business is to be conducted and business profile preferred by LO are all taken into account. Additional criteria for getting support is not conducting or suspending business activities within the past 12 months, the person applying for a grant should not undertake the same kind of business which he or she conducted in the last two years, did not refuse without any good reason a proposal of suitable employment, apprenticeship, training in the last 12 months, in some institutions own contribution is also required .

- **Starter** - Is a sub-measure organized by the Polish Agency for Enterprise Development (PARP) for the support of innovative start-ups in the sectors of ICT (Information and Communication Technologies), Medicine, Life Science (*"refers to living organisms, including humans, animals, and plants. This group includes biology, biotechnology, genomics, proteomics, pharmacology and biomedicine, and - according to some sources - bioinformatics"*<sup>12</sup>), Environmental Protection and recapitalization of a network of seed capital funds. Seed capital funds and venture capital funds can both benefit from Starter activities.
- **Seed capital funds (Venture Capital)** - These are risk capital funds. The purpose of this type of funds is the identification and selection of the most promising, innovative projects with high technological and market potential. Projects at the early stages of development are preferred, as well as a preparation of developing business ideas to a stage in which they would be ready to become a subject of capital or financial investments at the level of minority investor. *"Seed capital funds are an appropriate source of capital for a young or a newly formed company that is not able to obtain a bank loan due to lack of security and lack of credit history and when raising funds from the stock exchange is not possible due to a relatively small amount of the required capital. The capital offered by seed capital funds is a long-term capital (usually 3 to 7 years), use of which is not burdened with the current interest payments, which gives the ability to maintain financial liquidity."*<sup>13</sup> The maximum grant that can be achieved within the framework of such a fund is EUR 1 000

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<sup>12</sup> Source (11.07.2016): [http://www.plgrid.pl/projekty/plus/dziedziny\\_nauki/lifescience](http://www.plgrid.pl/projekty/plus/dziedziny_nauki/lifescience)

<sup>13</sup> Source (11.07.2016): <http://www.parp.gov.pl/fundusze-kapitalu-zalazkowego>

000 000. Under this type of support there is available help in setting up a business, preparing a business plan, business strategy, financial analysis, there are also available facilities for use as an office and funding for the development of a new product or service - in return the Fund will take over about 50 percent of shares in a newly founded company.<sup>14</sup> The Fund verifies a business plan, and after a favorable opinion, it will be followed by a negotiation process during which there will be established, for example, the value of the transaction, the number of shares held by the Fund, members of the supervisory board or obligations of the parties. After accepting the conditions, the funds are transferred, which begins the implementation of the provisions of the contract in a set timeframe. After this time, the VC Fund may buy the missing shares and sell the company or perform actions that will lead to its introduction into the Warsaw Stock Exchange (WSE). Database on Venture Capital Funds is held by Polish Private Equity Association (PSIK) [www.psik.org.pl](http://www.psik.org.pl).

- **BizNest** - is a sub-measure organized by the Polish Agency for Enterprise Development (PARP), in which public funds will constitute co-investment funds with private funds offered by business angels in the ratio of 1:1 to recapitalize innovative business ideas. This equity investment is aimed at entrepreneurs who plan to start their own business, not conducting business in any market or the owners of companies operating for up to 7 years (from the date of the first sale). *"Financial intermediaries in this sub-measure are vehicles of the Networks of Business Angels, which will invest in the final recipient by engaging the funds of Business Angels affiliated in the network, as well as public funds from BizNest. (...) The maximum amount of investment can amount to more than PLN 4 million (at least PLN 2 million as Business Angels' investment and PLN 2 million as a co-investment from the Financial Instrument. Financial intermediaries search for young companies based on innovative ideas and mobilize private investors to provide capital to invest in the companies mentioned above. The involvement of at least 2 business angels in the investment is required. Business Angels Networks can request the assistance in the form of grants ranging from PLN 30 to 50 million."*<sup>15</sup>
- **Crowdfunding (social funding)** - belongs to alternative forms of financing. It makes it possible to obtain funds from many people through an online, open access that in return expect return arrangements - benefits associated with the created product or service. In the case of equity crowdfunding - investors receive interests in the company's assets. Finding people willing to allocate funds for a given operation is carried out through a special Internet platform bringing together fund donors. The whole process of group funding consists of several steps. After choosing the type of Internet service (to determine the type of crowdfunding) comes the time for sharing and describing the project together with its financial goal, types of benefits, determining the benefits for donors, duration and

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<sup>14</sup> Source (10.07.2016): [http://www.pi.gov.pl/finanse/chapter\\_94537.asp](http://www.pi.gov.pl/finanse/chapter_94537.asp)

<sup>15</sup> Source (11.07.2016): <http://poir.parp.gov.pl/inwestycje-grupowe-aniolow-biznesu-w-msp-biznest/poddzialanie-3-1-2-inwestycje-grupowe-aniolow-biznesu-w-msp-biznest>

way of achieving the project objectives. Later there is time for settlements, implementation and providing return arrangements for donors. Some sites stipulate in their terms of use that in the case of not meeting sufficient funds to cover the cost of the project - the initiator of the project does not get anything, and all donors receive a refund of submitted funds. The most popular non-equity type crowdfunding websites include *zrzutka.pl*, *wspieram.to*, *beesfund.com*, *polakpotrafi.pl*, *wspolnyprojekt.pl*, in turn, equity crowdfunding is offered by services such as *crowdangels.pl*, *wspólnicy.pl*, *ideowi.pl*, *beesfund.com*.<sup>16</sup>

- **Business Angels (BA)** - People or group of people playing an important role in financing and development of the project on the basis of the input of internal capital in exchange for shares in the company. Business Angels form organisations within the platforms supporting innovative ideas, for example, Eastern Business Angels Network (WSAB), AMBER Business Angel Network, PolBAN Business Angels Club, Lewiatan Business Angels, Guild of Business Angels, Trinity Group, Supraregional Business Angels Network - Innovation, Regional Network of Investors and Capital Investments, Satus Venture, Secus Business Hunters, Silesian Business Angels Network, Student Business Angels Network. *“The information mentioned above and consulting platforms connect an entrepreneur seeking capital with “Business Angel” type investors that prefer to remain anonymous. They operate under different names and in various legal forms, for example, as private companies, foundations or not-for-profit organizations. These entities are financed through fees paid by both entrepreneurs and investors.”<sup>17</sup>Investor commitment to a given business ideas lasts for about 3-7 years. At that time, he or she supports the company not only with capital but also with knowledge, experience and a network of business contacts. In the event of a conflict of interest between BA and the entrepreneur or as a result of lack of appropriate contractual provisions, there is a risk of the Investor taking over the business. Business Angels usually choose innovative business projects (technological, but also a market/marketing innovations: new technologies - IT, the Internet, biotechnology, medicine, electronics, optics, engineering, or other projects whose most important part is the intellectual capital) with a significant growth potential and access to the growing sales market. A well-developed business plan, clear and inviting presentation of the idea for the business and development prospects increase the chances of finding a suitable investor. In return, investors expect a certain number of shares in a newly created corporation (z o.o. or S.A.).<sup>18</sup>*
- **Startup Platforms in Eastern Poland** - activities cover five provinces: Podkarpackie, Świętokrzyskie, Lublin, Podlasie and Warmia-Masuria and are organized by the project “Startup platforms for new ideas.” This kind of support is targeted for innovative ideas - companies founded by people under 35 years of age. A submitted idea should not be the

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<sup>16</sup> Source (13.07.2016): <http://crowdfunding.pl/crowdfunding-w-polsce/>

<sup>17</sup> Source (11.07.2016): [http://www.private-equity.com.pl/anioly\\_biznesu.html](http://www.private-equity.com.pl/anioly_biznesu.html)

<sup>18</sup> Source (11.07.2016): <http://wsab.org.pl/pages/view/inwestorzy#>

subject of already conducted business activity by the originator or originators. The criteria for selection of ideas include market potential of the project and the ability to transform ideas into viable products. Those interested in participating should fill in the questionnaires available on the platform ([www.PlatformyStartowe.gov.pl](http://www.PlatformyStartowe.gov.pl)). The next stage of a positively assessed idea is a meeting for the presentation of the business idea to entrepreneurs and experts from the project. Young entrepreneurs who successfully pass all of the stages, will be considered for the platforms program and will have to register a business activity in Eastern Poland in the form of limited liability companies (Sp. z o.o.)<sup>19</sup> "or run a business lasting up to 10 months incubator program, the aim of which is the final preparation of a revised, marketable, profitable and scalable business model. After completion of the incubation, program companies have the chance to receive a non-refundable grant to enter the market."<sup>20</sup> Such form is subject to a comprehensive care of qualified staff from the startup platform - business advisory (long-term) supporting the entrepreneur in creating a vision or strategy, providing mentoring (coordinated by PARP) and coaching. The specialist consultation includes cooperation in limited, defined areas of functioning of the company through technology, sales, engineering, design, marketing and legal services that will result from individual needs of the business being developed. "Participants can apply for up to PLN 800,000 of non-refundable grant for starting a business." Also, beneficiaries can take advantage of incentives and discounts guaranteed by municipalities or a network of business contacts and funds that are partners of a given Platform.

- **Regional Operational Programmes (ROP)** - EU support is implemented in each commune and district of all Polish provinces. In the case of Lublin province, ROP program (implementation between 2014 and 2020) with a budget of € 2.23 billion will cover areas related to entrepreneurship, research, and innovation, renewable energy, environment, labor market, education, social welfare, transport, culture, and health.<sup>21</sup> Grants can be obtained for the development of products and services, machines, buildings, the creation of new jobs, research and development, exports, innovation, and training. In January 2017 there will be a call for proposals for the creation/upgrading of enterprise infrastructure to introduce new or improved products/services, use of modern technology, support investment activities related to export, implementing in the enterprises scientific and development research results for micro and small businesses. <sup>22</sup> The institutions organizing individual competitions include Marshal's Office in Lublin, Lublin Agency for Entrepreneurship Support in Lublin and the Regional Labour Office in Lublin. The maximum percentage of co-financing from EU of eligible expenditure is **70%**.

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<sup>19</sup> Source (10.07.2016): <http://platformystartowe.gov.pl/program-inkubacji>

<sup>20</sup> Ibidem

<sup>21</sup> Source (12.07.2016): <https://www.funduszeuropejskie.gov.pl/media/5657/BBBB.pdf>

<sup>22</sup> Source (12.07.2016): [http://rpo.lubelskie.pl/dw\\_efrr/dokument-81-harmonogram\\_naboru\\_wnioskow.html](http://rpo.lubelskie.pl/dw_efrr/dokument-81-harmonogram_naboru_wnioskow.html)

## Sources of financing for business incubator

Establishment and operation of a business incubator are made dependent on the financial means necessary for renting an office space, purchase of equipment, co-operation or acquisition of experienced staff in the areas of accounting, law, as well as employment and training of the incubator staff. The initial investment costs are high, but with the development of the companies benefiting from the help of the institution, the profits will gradually overgrow incurred investment costs. Areas that may provide financial support for Business Incubators include Regional Operational Programmes, crowdfunding or seed funding (Venture Capital).

- **Regional Operational Programmes (ROP)** - offer grants and EU support for the development of new projects, among others, business incubators - centers appointed to provide individual support for the creation and development of young enterprises. In the coming years, it will be possible to apply for EU support for companies under Measure 3.2 Equity instruments - the minimum value of the project and eligible expenses - PLN 5 000 000, where support may be 85-95%. As part of Measure 3.4 The adjustment of the IOB to the needs of the market - the minimum project value is PLN 250 000, and eligible expenses - PLN 200 000, where support may amount to 70%. In the case of Measure 3.4 Economic marketing - the minimum value of the project and eligible expenses - PLN 20 000, where support may amount to 80%. In this Measure, projects implemented outside of the competition are also taken into consideration.<sup>23</sup> Information about the call and the required documents can be found at [lawp.rpo.lubelskie.pl](http://lawp.rpo.lubelskie.pl).
- **Venture Capital Funds (VC)** - are closed-end funds, which are invested by a group of investors in companies that are in the start-up phase, at an early stage of development or expansion. The capital is usually obtained for projects that are highly expected to bring profit but with a high rate of investment risk. The duration of funding lasts about 3-7 years. Venture Capital Funds due to the acquisition of shares or stocks of private or privatized companies share with the owners the risks associated with economic activity, not expecting on this account any additional guarantee or security. Investors want to engage directly, control (through the participation of their representatives in the supervisory boards) and work (advice in finance, management, and marketing) with businesses remaining the shareholders of the company. Through this type of solutions, they contribute to the growth of the company's value and maximizing long-term benefits.<sup>24</sup> Activities taken during the evaluation of the projects are designed to verify their viability through, for example, achieving the assumed rate of return in the next few years, the type of business model, suitable management staff, the correct estimate of the cost structure, a very good knowledge of the market particularly in upward trends, etc. *The process of*

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<sup>23</sup> Source (18.07.2016): [http://lawp.rpo.lubelskie.pl/dokument-81-harmonogram\\_naboru\\_wnioskow.html](http://lawp.rpo.lubelskie.pl/dokument-81-harmonogram_naboru_wnioskow.html)

<sup>24</sup> Source (13.07.2016): <https://www.parp.gov.pl/files/74/81/100/venture.pdf>

*finding an investor within the framework of VC is as follows: after selecting a particular VC fund, it is necessary to submit a complete business plan for the project, which after positive verification of its objectives passes through the first stage of selection. Then begins a detailed analysis of the company's standing regarding finance, legal and position on the market. After a decision in favor comes the time for negotiations regarding the transaction value, the number of shares, which will be taken over by the fund, members of the supervisory board and the responsibilities of both parties. After successful negotiations, there is the signing of the agreement, the transfer of funds, the implementation of the agreed development plan of the company. After a predetermined period of growth of the business comes the time for an IPO or searching investors interested in purchasing the company.*<sup>25</sup> Database on Venture Capital Funds is held by Polish Private Equity Association (PSIK) [www.psiik.org.pl](http://www.psiik.org.pl).

- **Business Angels (BA)** - Groups of investors offering support for initiatives related to entrepreneurship can provide strong support to a business incubator. Their financial contribution is donated to the development of business in exchange for shares in the company. *Business angels for approx. 3-7 years support the company with their capital, knowledge, experience and network of business contacts. In the event of a conflict of interest between the investor and the entrepreneur or as a result of lack of appropriate contractual provisions, there is a risk of the Shareholder taking over the business. Business Angels usually choose innovative business projects (technological, but also a market/marketing innovations: new technologies - IT, the Internet, biotechnology, medicine, electronics, optics, engineering, or other projects whose most important part is the intellectual capital) with a significant growth potential and access to a growing sales market.*<sup>26</sup>

A multitude of solutions for companies in need of financial capital lead to a relatively easy obtainable support, which is dependent on the well prepared business plan, knowledge about the market, a detailed definition of the objectives that the company intends to achieve and the determination of the owners.

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<sup>25</sup> Source (13.07.2016): [http://www.pi.gov.pl/finanse/chapter\\_95011.asp](http://www.pi.gov.pl/finanse/chapter_95011.asp)

<sup>26</sup> Source (11.07.2016): <http://wsab.org.pl/pages/view/inwestorzy#>

## Support offered by Business Incubator

Business incubators are a good way of supporting small and medium-sized enterprises and perfect form of the professional start of young people who plan to run their own business. Business Incubators have already helped many young people in starting and developing their business. Their operation benefits not only the business owners but also the Treasury. Business incubators affect the reduction of unemployment and stimulation of the economy. Social optimism is also increased, because if one can do it, I can do it, too.<sup>27</sup>As a result, more and more people planning to start their own business are considering doing it with the help of a business incubator. It is influenced by rich resources that the incubator provides to cooperating companies. Another factor in favor is also the fact that the continuous operation of the business in the incubator significantly increases the “survival” rate of the companies. It also leads to the fact that when the real sphere of economy feels the consequences of the global crisis, many businesses seek additional security to keep up in a competitive market. Business incubators are just one of the possible solutions that support the newly established, innovative companies in reaching maturity and ability to function in the market independently.

The organizational structure of the incubator (regardless of whether it is a subsidiary or stand alone entity) must include four intertwining aspects of its business:

- administration of infrastructure
- supervision of financial entities
- promotion of individuals and companies
- providing substantive support to incubated companies.

### Support tools in business incubators

1. Basic consultancy in early-stage companies, which includes issues such as:
  - formal and legal aspects of starting and running a business
  - advice on developing a business plan, creating an offer
  - searching for sources of financing for development
  - searching for business partners and promotion of a company on the domestic market and possibly foreign markets
  - networking and integration services
  - consultation regarding projects and project proposals under the EU Structural Funds
  - organization of foreign missions, conferences, information days, seminars and training for entrepreneurs in the field of offered services.

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<sup>27</sup> <http://www.bankier.pl/>

2. Pro-innovative services. The professional support provided by incubators is supplemented by pro-innovation services, which are services aimed at the development of the company by improving the existing or implementing a new
3. Providing technical infrastructure including:
  - usable area
  - research facilities
  - office equipment
  - access to broadband Internet
  - parking facilities
  - leisure and social facilities
  - accessibility by public transport.
4. Marketing services. Promotion is the way in which the institution provides its clients with information about their offer. The primary task of promotional activities is to inform about the organization and its offer, and their implementation is dependent on the budget that is available to an incubator, type of service that is going to be promoted, a group to which the offer is directed and the activities of the competition. The promotion is usually conducted using advertising and public relations.<sup>28</sup>

## **Phases of development of business incubators and scope of support**

An essential element in the development of a business incubator is its base position - the potential with which it begins to operate. At the very beginning, it must have specified resources that allow it to carry out its tasks. The two primary resources include infrastructure and a team executing the content-related, as well as administrative and technical tasks.

Below are the stages of development and a range of support offered.

At the initial stage of the pre-incubation, the services provided include mainly evaluation of the project regarding market success and the possibility of finding an investor interested in a capital entry in the development of the project. Clients are offered help in the early talks and contacts with a potential investor. The method of work at this stage is based mainly on group mentoring.

At the stage of starting a company, when business ideas are turned into projects, the range of services covers the following areas:

- preparation and presentation of project development outline and characteristics of the investment process

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<sup>28</sup> <http://www.ppnt.gdynia.pl/epnt.html#e-Inkubator>



- preparation of the necessary documents in the investment process including business plan
- cooperation in the selection of the legal form for the project, form of taxation and sources of financing.
- SWOT analysis.

At this stage, help in organizational, as well as formal and legal matters related to starting a business activity is also necessary.

Working methods mainly include individual mentoring, sometimes group mentoring, as well as coaching and tutoring.

At the stage of growth and building company's development strategy, the support involves:

- assessment and analysis of the needs of the organization and the market
- evaluation of results achieved through conducted operations
- identifying the most important barriers to the development and risk assessment
- help in building a development strategy
- identifying training needs and areas of competence required for further development.

Methods of work include individual mentoring, coaching, tutoring.

In the last stage of company development - the stage of internationalization and globalization, where the company engages in international business, for example, through the import or purchase of license, the demand for the services of the incubator may include:

- evaluation of opportunities regarding market success
- analysis of the necessary resources that will be needed to achieve the goals
- cooperation in the development of the schedule, budget
- preparation and presentation of project development outline and characteristics of the investment process
- analysis of opportunities and threats, as well as strengths and weaknesses of the project
- evaluation of the possibility of finding an investor interested in buying a stake in the venture.
- assistance in the first talks and contacts with a potential investor
- aid in management and organization.

In this area, the services in the field of mentoring, individual coaching, tutoring should be implemented.

Incubation programs carried out in the Polish business environment institutions include most of the elements mentioned above, their level of development is, however, very varied,

dependent on the customers' needs. New entrepreneurs are generally covered by a comprehensive package of complementary services, more advanced entrepreneurs can enjoy a deeper form of support.<sup>29</sup>

Business incubators operating in Poland offer their services mainly to students. The economy market lacks institutions such as an incubator that would provide support to vocational school students. The analysis of the situation of vocational school students shows that some of them start their first business activity already during school.

## **Methods of work in a business incubator**

### **Advising**

Advising, as the process of helping the customer solve problems or achieve expected results may be in the form of information, recommendations or practical work. In general, there is offered a comprehensive process of supporting the company relating to one or more of its areas of activity. There are two main approaches to the provision of advisory services: goal-focused and facilitative approach.

Providing advisory services according to goal-focused approach involving the delivery of ready-made solutions consists of the following stages:

- Introduction, which includes: an examination of the client's needs, determining the roles of each party, a preliminary analysis of the problem, creating a plan.
- Collecting detailed information about the business project and the problem.
- Problem-solving. Advisor proposes and consults several variants to solve problems. At this stage, a detailed implementation plan is created.
- Implementation of the solution according to the previously adopted plan.
- Closing by a summary of the actions taken.

The facilitative approach focuses mainly on the process of advising and enabling the customer to self-resolve a given matter. It involves increasing the effectiveness of clients by teaching them critical thinking skills about their behavior and way of thinking. In this approach, both the client and advisor are better involved in the implementation of the proposed solution. The stages of facilitative approach advisory services include

- initial conversation with the client
- planning and presentation of the course of advising
- reaching an agreement with the customer about the implementation of the proposed solution
- completion and evaluation of advisory services.

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<sup>29</sup> PARP: Organization and management of technological incubators

Regardless of the approach, the basis for the provision of advisory services is to identify an area requiring improvement or development effectively. Depending on the identified needs and stage of development of a business idea, advisory services may concern areas such as:

- strategic management
- organization of work
- finances and sources of financing
- legal area
- HR management
- knowledge and technology management
- marketing and sales
- production processes

### **Consultations**

This method of support involves providing expert advice in a given field of knowledge once or several times depending on the complexity of the problem and the needs of the customer. The consultant focuses on a particular issue presented by the client. He or she possesses the expertise and relevant experience, provides answers to customer questions. It is important that the consultant is able to transfer this knowledge to the customer in a manner that is appropriate to their abilities and expectations and that he or she controls the course of the talks to maintain confidence in their competencies.

### **Mentoring**

Mentoring is a partnership relationship between a master (experienced entrepreneur) and the student (future or young entrepreneur), focused on discovering and developing student's potential through inspiration, stimulation, and leadership. It is mainly based on the student, with the help of the master, getting to know himself, thus developing his self-awareness to make him not be afraid to follow the chosen path of self-realization. It also includes counseling, evaluation, and assistance in planning the road to the student's success.

The most common method of work is individual mentoring, which involves giving the other person personal aid in the introduction of changes to their knowledge, the way of work or the way of thinking and giving support in making substantive changes. A mentor is an experienced person with experience, willing to share their experiences acquired in different market situations.

In addition to individual mentoring, incubators offer also:

- group mentoring based on the work of one mentor with several people at the same time. Mentor - leads the team and helps them to achieve the desired target.
- E-mentoring as a way to complement and reinforce the traditional mentoring when between their meetings, the mentor, and the student also exchange information via telephone, e-mail, instant messaging, and so forth.

#### Monitoring phases

- Initial phase - pilot. It is a time in which mentoring is formed (6 to 7 months) when the two sides get to know each other, build a basis for a further relationship, identify their expectations.
- Growth phase (2-5 years) Partners meet regularly, and the student learns intensively from a mentor: how to become an entrepreneur, how to develop a product/service, organize work
- Separation phase (6-24 months). The period begins when the student becomes more independent. The end of this period comes when both sides realize that their relationship is no longer needed.
- Redefinition phase, with which the mentor relationship comes to a close. It is subject to redefinition, to go in a different kind of relationship.<sup>30</sup>

The success of the mentoring relationship is heavily influenced by the duration of the mentoring program, and areas which the mentoring concerns, but also trust, voluntarism, proper preparation of the parties to participate in mentoring, the proactive attitude of the student.

#### Coaching

Coaching is an interactive process that helps individuals or organizations in accelerating the pace of development and improving the effects of their actions. Coaching is conducted in the following stages:

- Identification of the need for improvement or change.
- Observation and gathering of information to understand what factors affect the activities of the entrepreneur.
- Motivation to describe the purpose of self-development is the motivation to make the change.
- Help in planning the achievement of the objectives based on specifying the results.
- Creation of conditions for the effective verification of the desired skills.
- Observation of activities and objective feedback.

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<sup>30</sup> S.K. Karwala: *Mentoring jako strategia wspierająca wszechstronny rozwój osobisty*, Wyższa Szkoła Biznesu, Nowy Sącz 2009.

- Help in overcoming setbacks.<sup>31</sup>

## Tutoring

It is a method that involves supporting the development of a business project by assigning each project with an individual tutor, acting as project supervisor. Tutoring is a process of development based on a personal relationship between a learner and a teacher. Individual contact allows for identification of strengths and weaknesses of the person being taught and arrangement of the program in a way that suits their individual needs. To make this meeting of two people - experienced and less experienced - efficient, it is necessary to develop a relationship based on trust, respect, mutual commitment and the authority of a tutor. The tutor does not need to be an entrepreneur but an experienced supervisor of the project, which can provide the business project (the student) with elements necessary for its development. It is important that the tutor is able to listen to the needs of the student. Fulfillment of these requirements makes the business project develop in the right direction.

Tutoring is a very informal method. It is a spontaneous process.

## Suggested length of support in business incubators

The incubator's support can be used for a specified period. Existing business incubators usually offer support for two years, in some cases, it is possible to extend this period to 3.5 years. Based on years of experience in working with young people in vocational schools, who often start their first businesses already during school years, after performed internship and by the results of research on the operation of companies established by young people, the following conclusions are proposed:

- The incubation process is most efficient if it is adjusted to specific needs of an entrepreneur, therefore the time allotted to this phase of the operation of the incubator should be individual with the possibility of extension.
- In Poland, the problem of the short follow-up period of business activity has been resolved in the programming period of 2007-2013 in one of the actions included in the horizontal operational program. The term of continuation of the activity specified in the grant agreement has been extended to 20 years, and the project managers were obliged to transfer all public funds received for the construction of a facility for

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<sup>31</sup> C. Wilson: *Business Coaching. Practical guide for coaches, managers and HR professionals*, MT Business, 2010.

incubated SMEs in this period in the form of entrepreneurship support.<sup>32</sup> The new budget perspective should take into account the functioning of business incubators as support for the idea of the development of entrepreneurship among young people entering the labor market.

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<sup>32</sup> <http://www.eca.europa.eu/> Report,, Did ERDF effectively supported the development of business incubators?

## Training for staff working in Incubators

### Methods and scope of training for staff working in the Incubator

A business incubator is a separate unit, which runs a full program of support for the aspiring entrepreneur until he or she reaches an equilibrium on the market<sup>33</sup>, it should be a place of employment for the best-educated staff, offering help, support, and advice for its beneficiaries. Properly educated and substantively prepared staff working in the facility is an important pillar in this organization structure. Competent and well-thought-out selection of the right people for key positions is significant because it is they who have a great impact on the development of companies operating within that institution.

It is the people forming the backbone of the organization that is burdened with the promotion of the entity, both with their personalities and the activities of the Incubator as a whole in the business environment. Based largely on the importance of duties or responsibilities entrusted to the team - there should not be too much pressure put on helping or supporting (the conduct of beneficiaries' activities) the active companies by the staff of the Incubator. Such actions can not only disrupt developing entrepreneurship, initiative, involvement in the processes of creating companies but may also have adverse effects on the development of the projects themselves. That is why the team should not exceed the area of their competence and direct the activities of young entrepreneurs but only put themselves in the role of an expert or advisor offering substantial help and support - depending on the needs of business owners.

Experienced personnel should have extensive knowledge about entrepreneurship, have essential skills backed by experience in the field of business consulting, broadly understood interpersonal communication, theoretical or practical knowledge about starting and running a business activity and keep themselves updated on the possible sources for funding business ideas for the beneficiaries of a given facility. It is worth noting that in the case of specialized training (for example, taxing and accounting or related to finances), the staff of the incubator should improve their knowledge and skills on a regular basis to prevent erroneous information given during meetings with young entrepreneurs.

Methods for carrying out training for the staff of the Incubator must be adapted to a range of time in which the information is to be absorbed, the base knowledge on the subject, speed of learning and the current progress of the participants in the field of topics of the training. Thanks to appropriately selected methods of carrying out training activities, educational goals are accomplished in the most comprehensive and efficient way. In turn, the right choice of tools for the transfer of subject knowledge enhances the benefits of learning and facilitates much faster understanding of the issues discussed. A multitude of training methods combined

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<sup>33</sup> (Source 25.06.2016): [http://www.pi.gov.pl/iob/chapter\\_86467.asp](http://www.pi.gov.pl/iob/chapter_86467.asp)

with the attractive form of communication should facilitate quick and efficient assimilation of the contents being taught and their productive use when working with young entrepreneurs.

Business Incubator should be a learning unit, which, thanks to the constant updating of knowledge, should encourage both staff and beneficiaries to improve and develop their potential by relying on lessons learned by the whole organization. *“Learning and working are becoming synonymous, and the organization is subject to a continuous process of transformation.”*<sup>34</sup> With such behavior, both human resources, knowledge, and business supported in the framework of a business incubator will create competitive entities for the surrounding business area.

## **Training methods for the personnel working in the Incubator**

Training methods discussed below (standard and custom) are designed to stimulate the development of knowledge, develop skills, strengthen specific competencies, build positive behavior and attitudes of the participants of the training being conducted. They should combine theory with practice, current and new knowledge, make the members curious and raise their motivation for further learning. When choosing the training methods, particular attention was paid to the efficiency of remembering the material by the members, the diversity of ways of transmitting content associated with the learning styles (auditory, visual, kinesthetic), making activities more interesting and different learning preferences of the participants.<sup>35</sup>

A critical factor motivating to learning, source of authority, as well as the optimal stimulus regarding transfer of knowledge is an experienced trainer tied directly to a field that the training covers. Practitioner, in contrast to a theoretician, can effectively intrigue the listener, present many perspectives on the problem, propose the best solutions, not fearing the wave of criticism from challenging participants or skepticism from more advanced audiences.

### **Standard methods of training:**<sup>36</sup>

- **Lecture** - belongs to the classical methods of oral transmission of information on the forum, by combining the use of graphic items (for example, a slideshow), along with a broader discussion of the issues. This method of lecture makes it possible to broaden the knowledge of almost every area and greatly facilitates the introduction of a particular subject. This group also includes mini-lectures, prelections, and so forth.<sup>37</sup>

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<sup>34</sup> O. Lundy, A. Cowling, *Strategic Human Resource Management*, Dom wydawniczy ABC, 2000; P. Senge, *The Fifth Discipline. The Art & Practice of The Learning Organization*, Dom wydawniczy ABC, 1998

<sup>35</sup> M. Laguna, P. Fortuna *Przygotowanie szkolenia czyli dobry początek prowadzi do sukcesu*, GWP, Gdańsk 2009, s.12, 139,143

<sup>36</sup> Ibid. p. 142

<sup>37</sup> D. Szczepan-Jakubowska, *Szkoleniowiec w pakamerze, czyli narzędzia pracy szkoleniowca*, Kompendium Nowoczesna Firma Szkolenia w Polsce 2008



- **Group discussion** - method involving a group dialogue by expressing their opinions, judgments, learning and testing different points of view and experiences of other people participating in the training. It actually engages all participants in a given subject, shows different ways of looking at the creation of new solutions - resulting from problems of this topic.
- **Roleplay** - The method is based on the role-play by the group on the forum a situation that may occur or happen in the real world. This type of techniques allows to look on given circumstances from a different perspective and impersonate the character, making it easier to find new possibilities and creative solutions for specific tasks or problems.
- **Written exercises** - One of the oldest methods used for consolidation of previously acquired knowledge. It is used for the development of the learned material and use of already learned concepts in new situations. Such tasks can be used to check the level of students' knowledge of the content of the course.
- **Case study** - method involving a discussion of a given situation or problem as a case study. It is based on presenting information and analysis of the event (case) directly related to the topic to find a constructive solution. It helps to understand and master the complex solutions, unstructured problems and explore solutions for non-standard situations.
- **Software and simulation methods** - The methods of this type include, for example, computer simulations that present a simulation of the actual situation, process or concepts in a new context.
- **Instruction methods** - Activities involving learning to use a particular program to get accustomed to its functioning or applying specific actions in the case of a given process or program.
- **Group exercises** - Methods of this type bring the best results when working in smaller groups. They involve the performance of specific tasks, and the members of the group must work together to analyze, evaluate and draw conclusions, to determine how to fix the problem or identify certain rules of conduct.

### Custom (active) methods of training:

- **Activating exercises** - Such actions cause an increase in energy levels in the group, activation of brain areas, improvement of the dynamics of the participants' activity, the growth of memorized material and interact with each learning style (visual, kinesthetic and auditory). Relaxation and skill methods are standard. Activating exercises are used at the beginning of training as icebreakers or during the course as energizers.
- **Visual techniques** - Methods of this type vividly depict the complexity of the problem or structure a given subject. Such solutions may include collage, mind maps, decision trees, puzzles, maps, and charts. Such techniques streamline the process of learning by discovering custom solutions and new points of reference to the situation.
- **Imaginative techniques** - may include outdoor activities, which are extended forms of metaphorical exercises, or the use of humor or absurdity when creating new ideas.
- **Creative solutions to real problems** - rely on custom activities showing an original approach to discussed aspects of the issues. They stimulate the brain for creative action. They reveal new insights into logical sequences of illusion or actions from the problem to its solution.<sup>38</sup>
- **Brainstorming (Session of deferred evaluation)** - This kind of technique increases the group dynamics through the rapid accumulation of some mutually exclusive hypotheses, ideas or solutions to the problem. When using this method, communication is interrupted between the phase of production of ideas and their evaluation.

### The scope of training for staff working in the Incubator

The staff of business incubator should offer a real support for persons acceding to this model of support for young entrepreneurs. The knowledge and skills to evaluate the proposed business idea, professional support during the project implementation, reliable assistance in setting up a business or professional advice on alternative forms of financing should be the key competencies of staff finding employment in this type of entity supporting business.

The content of materials and exercises should reflect the reality in which the participants of the training live and work, determine the needs of the beneficiaries of the incubator, and thus indicate serious problems that young entrepreneurs may face during the operation of their business within the incubator or as a self-employed person. Training should be adapted to the changing market, current and future trends affecting supply and demand in the economic system.

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<sup>38</sup> E. De Bono – *Lateral Thinking*, Helion, 2008, p.15

## Training that should be taken by the employees of the incubator:

A multitude of training that should be taken by the team of the incubator must correspond to the demand for knowledge and assistance to beneficiaries of a given entity. Many courses mentioned below are necessary for survival and efficient operation on the market and offer prospects to start a business in the future. The knowledge gained by the staff should be passed on for the purpose of education and broadening of the horizons of young entrepreneurs. Future functioning of the entity, the number of applications of people with new ideas, the number of operating businesses and the volume of beneficiaries leaving the Incubator to create their own business is dependent on the appropriately trained and experienced personnel.

- **Training in the field of operating CEIDG database (Central Register and Information on Economic Activity)** - Knowledge and ability to use the website, knowledge on how to correctly fill the request, how to efficiently search for an entry in the database of entrepreneurs, how to change the data in the application, and so forth.
- **Training on “how to start your own business”** - Knowledge about the steps and stages that need to be taken to establish a business after leaving the incubator (steps, where to go, what are the required documents, fees, and so forth.).
- **Training in the field of PKD (Polish Classification of Activity)** - Ability to navigate the website and knowledge about the classification scheme, preparation and advising the beneficiary on which groups/classes and subclasses are the most relevant to the business conducted by them, and so forth.
- **Training in the field of restrictions on freedom of economic activity** - Knowledge about which areas are subject to additional statutory limitations - knowledge about the required concessions, licenses, permits, certificates, financial resources in a particular field, industry, and so forth.
- **Training in preparation, consulting and analysis of business plans** - Knowledge divided into the most important sections of a business plan: business description, type of business, industry, market, range of services, description of services, competition, competitive advantages, target markets, pricing, market strategy, sales forecasts, balance sheet, profit and loss, cash flow, breakeven analysis, and so forth. These skills will enable the staff of the incubator to assess an idea and propose a way of business development, which, at the same time, will be beneficial for the development of ideas of young entrepreneurs in the incubator.
- **Training in accounting** - Education aimed at acquiring the skills to prepare a balance sheet and what it involves, how to create a loss and profit account for a given period, how to properly create an analysis of cash flow statements. This knowledge will allow

employees of the incubator to estimate the chances of financial success of a given business on the market and advise on the creation of these reports by the beneficiaries themselves.

- **Training in the area of marketing and advertising** - Knowledge about what is an effective marketing and what it involves, what are the forms of low-cost guerrilla marketing, what types of ads are useful for a particular industry. How to create effective advertising tailored to business profile and target group, various forms of brand promotion, product in the real world and the virtual space. The incubator's staff should competently advise beneficiaries on how to effectively promote their product or company on the market.
- **Training on available sources of financing** - Updated on a regular basis knowledge regarding the information including possible forms of financing the companies, for example, internal funding (own), financial development through customers, subsidies, tax rebates, bank loans and leases, crowdfunding, bills of exchange, aid funds, business angels, and so forth.
- Training on types of activities in economic law - Knowledge of the types of economic activities (non-agricultural economic activity (performed by a self-employed person), private partnership operated with a spouse, general partnership, professional partnership, limited partnership, limited joint - stock company, a limited liability company, joint-stock company or a European cooperative society (SE), European economic interest grouping (EEIG), association, foundation<sup>39</sup>) **and the formal requirements for their establishment, the consequences of ownership, tax or those related to the liability for the obligations.**
- **Training in the field of accounting and book-keeping** - Knowledge about possible forms of taxation (*general principles - what should be taxed according to the tax scale 18% and 32%, flat tax - a tax rate of 19%, tax on recorded revenue without deductible costs, fixed amount tax, tonnage tax*).<sup>40</sup> Analysis of the above types and counseling on what form of taxing is the most beneficial for the aspiring entrepreneur. Basic knowledge of methods of entering accounting documents, general knowledge about VAT taxes in the national market, skills in filling out tax forms, and so on.
- **Training in the field of EU subsidies** - Continuously updated knowledge on institutions organizing competitions, knowledge of start dates and duration of the calls for proposals regarding EU support, news, and assistance in completing the grant application, knowledge concerning types of documents and formal requirements in individual projects, and so forth.

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<sup>39</sup> (Source 25.06.2016): [http://www.pit.pl/dzialalnosc\\_gospodarcza\\_definicje\\_1052.php/](http://www.pit.pl/dzialalnosc_gospodarcza_definicje_1052.php/)

<sup>40</sup> (Source 26.06.2016): <http://www.pit.pl/formy-opodatkowania/>

- ***Training in the area of public relations*** - Desirable skills include the knowledge of a variety of strategies and PR programs, new techniques of image creation, media relations, knowledge in the production of short PR texts, and so forth. The Incubator employees should use appropriate measures in the area of PR; they should disseminate incubator's ideas in the local market, be able to create and edit concise content on the website, posters, flyers, create brief PR notes. At the same time, they should provide advice and assistance in the drafting of texts or creating PR programs by the beneficiaries of a given entity. They should also assist in editing or creating texts (for example, advertising texts) for young entrepreneurs, or support them in other areas of image creation.
- ***Training in communication and interpersonal skills*** - Ability to create public presentations and presentation techniques, effective forms of communication, voice and non-verbal communication training, assertive attitude, hidden levels of messages, the art of paraphrasing, clarification and proper provision of feedback, creating own communication style, and so forth. The employees should have a high level of competencies in the field of interpersonal communication due to the necessary openness to new business contacts in the local business environment and other companies from the business environment. Incubator staff should take the initiative to meet the expectations of the beneficiaries regarding the organization of workshops, seminars, fairs, lectures or meetings where it is possible to exchange business experiences. The appropriate attitude of the staff should encourage frequent contact and interaction during training, regular skills workshops, fairs or thematic meetings related to the types of forms of business activity and entrepreneurship.
- ***Training in the area of "Necessary knowledge for the beneficiary of the incubator"*** - Basic knowledge of what is a Business Incubator, on what basis it works and what is its idea. How to join it, who can operate within the Incubator, what are the costs of accession to a given entity and the benefits offered by such a facility. Knowledge about what is the pre-incubation and incubation, how the billing system in the incubator works, how the beneficiary account is handled, how to settle invoices within the incubator, and the (financial and legal) benefits of accession to the incubator, and so forth.
- ***Training in the area of self-presentation and public speaking*** - Ability to build authority, create the image of an expert, ways to intriguing the recipient and the appropriate preparation for leading short cyclical training on time management, assertiveness techniques or presenting issues on how to run a business efficiently. Persons who are in a team of employees should be communicative and open to new contacts, should be characterized by high personal culture and personal involvement in the operation, development and promotional activities of the company.

- **Training in the area of economics** - Skills allowing to estimate the market potential of the project, competence in evaluating opportunities and threats for a given business idea based on the knowledge of statistics, indicators and economic data from particular industry, data research, information from the website of the Central Statistical Office (GUS). General knowledge of the subject and the problems of industries operating in the market. Basic knowledge of micro- and macroeconomic issues, as well as economic policy.
- **Training on good business ethics** - Preservation of professional secrecy is crucial when working with various companies operating within the incubator. It is unacceptable to reap the benefits associated with the transfer of information regarding the business idea, the company activities, its profits, and losses, and so forth. Knowledge and rules on personal data protection, securing any internal information, the safety of the information on ideas or knowledge about the operation of the business idea. Necessary standards of conduct for ethical negligence or errors committed during the collaboration.

The choice of the best employees, combined with a broad range of training dedicated to them will be a factor increasing the prestige and competitiveness of the incubator on the market. The smooth operation of the entity for business development will contribute not only to the reduction of unemployment but will also have a positive impact on the type of the professional structure of the community.<sup>41</sup>A team actively involved in the development of potential of the facility, supporting the beneficiaries at each stage of the development of their companies, offering office facilities, legal, accounting and training support to increase the dynamics of business integration will support the development of SMEs, will help create favorable conditions for economic diversification, will stimulate the development of companies' potential, favorable economic diversification, will stimulate growth in the development of innovative projects and competitiveness of young people on the labor market.

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<sup>41</sup> (Source 26.06.2016): [http://www.pi.gov.pl/iob/chapter\\_86467.asp](http://www.pi.gov.pl/iob/chapter_86467.asp)

## PRACTICAL INFORMATION – Q&A

### 1. Where were the first Polish business incubators created?

Wielkopolska Centre for Innovation and Entrepreneurship created in 1990 at the University of Technology in Poznań was the Polish business incubator. This was shortly followed by the Centre for Entrepreneurship at Warsaw University of Technology, also in 1990. These were academic - technologic incubators.

Later social incubators in Lodz and Szczecin, Gdansk and Cracow were created.

### 2. Are there any other innovation and entrepreneurship centres?

Of course, there are. Business incubators represent a relatively small percentage of innovation and entrepreneurship centres, there are also techno park clusters, technological incubators (which are often isolated from business incubators themselves and concentrate on supporting businesses dealing with transfer and commercialization of technology), there are also scientific advice centres, centres of technology transfer and other (especially abroad, where the abovementioned division is often quite different or other types of centres have been created).

### 3. What percentage of innovation and entrepreneurship centres do business incubators make?

It is estimated that in 2014 business incubators represent 26.1 % of innovation and entrepreneurship centres in Poland, but business incubators, university incubators and technology.<sup>42</sup>

### 4. Has, and if so, how has the situation of Polish business incubators been changing?

As the number of BI most probably has not changed significantly, Polish incubators are starting the process of professionalization. Operational budget and the space for rent for individual incubators is increasing significantly. The average area of the incubator is 2500-3000 m<sup>2</sup> - this is the area the BI strives to have in order to be self-financing.

The package of services offered to businesses has been undergoing diversification, developing new methods of co-operation and support (co-working, open space).

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42

[http://www.pi.gov.pl/PARPFiles/file/OIB/publikacje/20141204\\_PARP\\_osrodki\\_innowacyjnosci\\_w\\_polsce.pdf](http://www.pi.gov.pl/PARPFiles/file/OIB/publikacje/20141204_PARP_osrodki_innowacyjnosci_w_polsce.pdf)

The range of postulated services that most of the incubators want to offer is a virtual incubator or an alternative academic pre-incubation. Incubators are starting a process of specialization, focusing on effective and measurable delivery of specific services to particular entities .

Interestingly, although Poland does not have its own strategy for creating and maintaining business incubators, Polish incubators are aware of new development solutions and trends and continuous modernization through which the main resource – usable floor space - should not be binding. Virtual incubators are created, international and without any infrastructure for which the lack of space does not mean the lack of activity .

### **5. What is pre-incubation?**

Pre-incubation basically means lending legal personality by the pre-incubator to run your business under safe conditions. As a result a given business is able to use funds, but the owner of the sub-account – that is a pre-incubator, is also able to manage them. Pre-incubation is the best way for those who only want to " launch " their ideas – to have them evaluated and to check it in practice but without too much responsibility (legal).

Pre-incubation is typical of academic business incubators.

### **6. What do you need to join the incubator ?**

First of all a well-prepared **business plan**. Some incubators - particularly academic ones - consult the business plan of a given business with it before accepting it into the incubator, the majority treats it as a part of a training offer and consultation for those entities which have already been accepted .

Access to a business incubator is granted on a basis of a competition that has been won, an approved application, properly filled-in and approved form or consultation with decision makers .

### **7. How many entities are there in the business incubator?**

It is estimated that there are approximately 22 business entities in one incubator. This number, of course, may actually vary from a few business entities to the upper limit which cannot be imposed.

### **8. What is the fee paid by the startups?**

Typically, it is 250 PLN (package), however this does not include the rent for office area, which ranges from 0 to 57 PLN/sqm<sup>43</sup>. This range depends on the standard, the type of area, location

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<sup>43</sup> As of 2013.



and business environment . Please note that in order to determine the fees, you must first consult the incubator and provide it with your expectations and possibilities<sup>44</sup>.

### 9. To what extent can incubators finance startups?

Both an operational budget as well as an investment budget of a BI is growing constantly: while the operational budget of an average incubator amounts to 1.25 million a year, the investment budget is over 6.5 million a year.

That's why startups can safely use the facilities (resources) offered by incubators. However, these are mainly methods of non-financial assistance: training, consultancy. In case of financial support, basic support involves assistance in obtaining grants - especially European grants. Incubators rarely help businesses e.g. in obtaining seed capital.

Besides their assistance in obtaining grants, incubators relieve their associated entities from the majority of charges – companies in incubators do not pay social insurance premiums and the cost of VAT registration, they do not pay accounting services and legal advice fees (unless they use an external entity). As a result, the monthly costs can decrease - on average – from 2 557 PLN to 250 PLN.

It is worth remembering that incubators outsource 43% of business support services with third parties. Legal advice or administrative advice does not have to take place within the incubator however; the incubator is responsible for mediating it.

BI assist in obtaining funds mostly from Local and Regional Loan Funds (86 %), guarantee funds (43 %) as well as from the range of subsidies, grants and co-financing (36 %). Other sources include venture capital or cooperation with „business angels ". In 2014 only 7% of incubators declared that they do not offer such assistance.

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<sup>44</sup> Sample pricelist of services in an incubator: <http://www.inkubator.tarnogorski.pl/index.php?m=cennik>

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**MODEL OF BUSINESS INCUBATOR FOR VOCATIONAL  
SCHOOL AT MALTA**

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## Table of content

<i>Table of content</i> .....	51
<i>Introduction</i> .....	52
<i>Incubation centres</i> .....	52
<i>Legal Framework</i> .....	54
<i>Type of incubator / infrastructure</i> .....	55
Relations of clients with incubator / support delivered.....	58
<i>Financial model / cost per beneficiary</i> .....	59
<i>Possibility for other incubators – SWOT analysis</i> .....	61
Strengths.....	61
Weaknesses.....	62
Opportunities .....	62
Threats .....	62
SWOT – in brief .....	63
<i>Business plan</i> .....	64
<i>Method of support</i> .....	68
<i>Education path</i> .....	69
<i>Concluding remarks</i> .....	71

## Introduction

A business incubator is an entity established to help the formation of firms that want to deliver innovative ideas. Through mentoring and resource support, incubators help small businesses enter into the market and set the stage for growth. Incubators may offer legal advice, financial advisory, organisational and informative services, grants or soft loans, together with equipment and office or production rooms.

Malta with a population of circa 430,000 persons has 3 active business incubators. By way of comparison, there are about 300 renowned incubators in the United States<sup>45</sup> and 12 in London<sup>46</sup>, which translate in 0.9 and 1.4 incubators per one million persons respectively.

## Incubation centres

The business incubators in Malta are; the Kordin Business Incubator Centre or KBIC which was set up under Malta Enterprise in 2001<sup>47</sup>, the Malta Microsoft Innovation Centre which was launched in February 2013<sup>48</sup> and the Centre for Entrepreneurship and Business Incubation or CEBI which was set up by the University of Malta in July 2013<sup>49</sup>. CEBI which is the overarching arm of university dedicated to business incubation works together with Take Off which is the actual business incubation workshop. Take Off was set up in 2014. The Malta College of Arts, Science and Technology or MCAST started to occupy part of KBIC as from 2014. As a vocational college, MCAST wants to nurture an entrepreneurial culture amongst its own students<sup>50</sup>.

KBIC is a mixed technology oriented incubator as it offers space to i) engineering design and development of equipment systems, ii) renewable energy resources, iii) biotech projects and iv) any other innovative projects. The site provides a cost-effective business environment with a facility that covers 4,800 square metres. The formal incubation period is set between a minimum of one year up to a maximum of three years. Each tenant is provided with basic infrastructure such as supply of electricity and water, telephony services and furniture.

Microsoft's centre is more focused to attract ideas that make use of Microsoft's products. It incubates projects in Information Technology and that intend to develop new hardware or software. At their Skyparks centre, Microsoft offers training courses related to development, to cloud and gaming.

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<sup>45</sup> <http://www.investopedia.com/articles/personal-finance/092815/8-top-business-incubators.asp>

<sup>46</sup> <http://www.telegraph.co.uk/finance/newsbysector/mediatechnologyandtelecoms/11283107/All-of-Londons-start-up-accelerators-and-incubators.html>

<sup>47</sup> <http://www.independent.com.mt/articles/2007-06-23/news/lm400000-investment-for-kbic-expansion-175376/>

<sup>48</sup> <https://www.microsoftinnovationcenters.com/locations/malta>

<sup>49</sup> <https://www.um.edu.mt/cebi/aboutcebi>

<sup>50</sup> <http://www.maltaenterprise.com/mcast-entrepreneurship-centre-set-kbic>

On the other hand, CEBI, was set up to educate and support graduates in the creation of knowledge-based and knowledge-intensive business ventures. As part of the programme, the University of Malta delivers a full-time course at Masters level over an academic year, which is followed by another three semesters of mentoring and realisation about the project.

## Legal Framework

The legal frameworks that govern Malta's incubators are drawn by the legal offices of the respective organisations; there is no specific national framework. The University of Malta and MCAST bind their participants with general conditions related to the terms of use of the facilities and obligations between the parties.

However, there are operational elements that any comprehensive framework that could be developed in the future should take into account and that relate to the very nature of incubation concept. Networking and relationships refers to how the incubator connects the incubatees to each other and to the outside world. Business support is associated with mentoring, office sharing, facilities, education and training activities undertaken to develop the incubatees. Whilst promotion is done at a final stage when the project is ready to be marketed. But then, one must not miss the graduation which is related to exit policies, i.e. decisions concerning under what circumstances incubatees should leave the incubator.

Most incubators seem to supply more or less the same set of general administrative services, including shared office space and equipment as well as facilities-related services and office services such as reception and clerical services. Most incubators have formal exit rules requiring incubatees to leave the incubator after 3-5 years. The task of identifying firms that are "weak-but-promising", while avoiding those that cannot be helped through business incubation as well as those that do not need incubation, is a challenge which requires a sophisticated understanding of the market and the process of new venture formation. The legal framework should take into consideration this flexibility and dynamics in order not to tie operations in a web of procedures that might discourage the development of a good idea.

Most incubators take on ventures in early phases, whose ideas are immature, i.e. have not yet been fully developed into business ideas help develop them into viable companies. Thus, incubation should be aimed at bridging or closing the gap between the new venture idea and "the attempt stage" whilst underseeing the exit stage successfully.

At the same time, an ideal legal framework should provide wannabe entrepreneurs with specific safeguards related to the protection of their ideas.

The common incubation steps that should be covered at legal level are:

- Selection
- Networking and Relationships
- Mentoring
- Education and training
- Capital and Financing Network
- Intern network
- Promotion
- Offices, shared Space and Facilities

- Incubation time
- Exit period

## Type of incubator / infrastructure

University's and MCAST's incubators are meant to encourage students to develop their entrepreneurship capabilities, still the service is offered to outsiders at an extra cost.

MCAST Entrepreneurship Centre aims to provide students the opportunity to develop their entrepreneurship skills through tailored business training, one-to-one mentoring, the provision of space for business development and also through travel initiatives. These activities contribute to the educational aspect of the curriculum by informing, captivating and guiding students to transform their ideas and dreams into sustainable realities.

Prior to the setting of the MCAST (MEC) and Malta Enterprise signed an agreement whereby both sides agreed to collaborate in order to provide MCAST students with easier entry to the entrepreneurial world and a framework for innovative ideas to thrive. In this way, this framework will help students with original ideas to start and develop a successful business.

Moreover, as a result of this agreement, Malta Enterprise assigned a number of units at the Kordin Business Incubation Centre (KBIC) to MCAST. These units were made available for MCAST students who individually or in groups to embark on projects with potential for commercialization. Thru the MCAST Entrepreneurship Centre a Project Board was set up to evaluate business proposals put forward by MCAST students. The Selection is composed of the College officials and of the Malta Enterprise representative.

The idea behind the MCAST incubator is that of strengthening the enterprise sector through the introduction of new developments including the setting up of an Entrepreneurship Committee to manage these initiatives and identify new ways of encouraging students to develop their entrepreneurial potential.

Meanwhile, it's started developing incubator ideas at an early stage all students by developing entrepreneurship as an important curricular element across all levels. Each, MCAST institute has also appointed one of its staff members to act as an entrepreneurship champion who provide students with the necessary guidance about start-ups. MCAST planned to instil entrepreneurship into students for some time and introduced it as a core subject to students from the various institutes who are following Level 4 courses with the intention to eventually spread it to other levels.

MCAST incubator is more focused on vocational ideas as highlighted in the testimonials below:



- Roberto Tweraser a former MCAST art and design student whose thesis was on lamps made out of salt and resin. When he graduated he took up a full-time job but dreamed of starting his own company to make the lamps, which took years to develop as a feasible product. *“It is early days and although they are selling, so far I do not generate enough income to justify giving up my job. Unless you sell a reasonable amount, you find it hard to make it worth the packaging and marketing. However, if I can carry out more research and develop new lines in other materials like concrete, then I hope to have enough of a turnover to justify taking things to the next step.”*
- Ryan D’amato a student reading for an Advanced Diploma in Electronics (Embedded Systems Design - *“Studying electronics engineering is my great passion and always inspired me to start my own business. Contacting KBIC was the best decision I could have ever made for the realisation of my idea. At KBIC they are mentoring me and other young entrepreneurs like me to ultimately be successful. I believe that determination, hard work and to do what you do with passion are important values for an entrepreneur. With these values and help, I aspire to realise my dreams.”*
- Sebastian Mizzi reading for a Bachelor of Science (Honours) in Biomedical Engineering - *“As part of its initiative to encourage the setting up of new businesses, MCAST has given me the opportunity to start mine in producing automation panels and electronic designs in various industrial applications. Apart from the mentoring provided on a continuous basis, I also have the possibility to meet expert teams in the related area of business. Through MCAST I am now developing a strong business plan which will eventually enable me to position myself better on the market”*

The University of Malta’s - Take Off business incubator aim is that of providing a development space to start-ups and help innovators and aspiring entrepreneurs to create thriving technology and knowledge-based ventures. This is done by providing fledgling start-up companies with private and shared work spaces, and most importantly, business support, advice and vital connections. The aim behind this is that of lowering start-ups’ costs and risks and improve their chances of success.

Take Off offers benefits and services designed to help aspiring innovators entrepreneurs and start-ups. It empower applicants with the business expertise and resources needed to build business, while lowering costs and risks, during critical the critical startup period and improving likelihood of success. Take Off will work with the team to create a tailored business development program plan, providing oversight and facilitating access to resources that meet the applicant needs as they arise over the course of business creation.

On the other hand at Take Off, the start-ups are more technology and IT oriented. Below is a list of innovative start-ups that made it to receive seed funding in 2014.

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## BUSINESS INCUBATOR

- DiscountIF (€18,000): Start-up DiscountIF's e-commerce platform will disrupt the traditional online retail market by combining the thrill of winning a bet with the value of a discounts site, offering a unique buying promise.
- Inbound Muse (€18,000): Inbound Muse will produce artificial intelligence-based software that helps businesses gain in-depth understanding and insights about their markets.
- MightyBox Games (€10,000): Digital games studio MightyBox is focused on developing games for the music industry, producing titles closely attached to songs and musical artists.
- Sanctuary (€6,000): Sanctuary is developing a mobile, audio-visual tool designed to provide meditative aid to terminally ill hospital patients.
- eSports Unlimited (€5,000): eSports Unlimited is a new web-based platform offering fantasy sports leagues, betting, and results analysis services for professional video games competitions (esports).
- Rib Bridge (€16,000): A University of Malta team has invented a novel 'rib bridge' that helps surgeons safely and effectively reconstruct chest wall after operations to remove cancers and address traumas.
- Ultrawideband Antenna (€14,500): A University of Malta team has developed an ultra-wideband, ultra-low cost antenna with large market opportunities in astronomy, mobile, radar, broadcasting, aviation and earth observations.
- WALNUT (€7,500): A University of Malta team is developing brain-controlled music player app for mobile devices.
- HydroStorageSystem (€5,000): A University of Malta team has invented a system that combines offshore wind energy and deep sea water to produce low-cost onshore cooling for large buildings.

The incubation centre at Microsoft offers students the facility to benefit from training development and the latest IT technology. The software available to students varies from educational programmes, to entrepreneurial and community programmes.

## **Relations of clients with incubator / support delivered**

All incubators operate in a very similar way. The participants first benefit from training and mentoring about how to make an innovative product/service happen and reach the market. Thereafter, incubatees spend months – usually up to three years – to develop their idea and work out on its marketing. Incubatees who attend Take Off and whose idea is considered to be innovative stand to benefit from grants. Throughout the period the participants spend in the incubators they are assisted by professionals who offer advice which is both of a technical and business nature.

In order to pursue an idea-focus approach, incubator managers must have access to deep knowledge in relevant technological fields in order to evaluate the viability of ideas, i.e. the product, the market and the profit potential related to the combination of these. The entrepreneur focus approach, in contrast, requires the ability to judge personality as well as the knowledge of more general business development requirements in relation to which the experience, skills, characteristics and driving forces of entrepreneurs may be evaluated. However, selection is not only a matter of criteria – it is also a matter of flexibility or strictness in applying them. Research showed that in the picking-the-winners approach, incubator managers sometime try to identify a few potentially successful ventures. When this approach is taken to its extreme, incubators resemble private venture capital firms. In the survival-of-the-fittest approach, incubator managers apply less rigid selection criteria, take on a larger number of firms and rely on markets to provide the selection processes that over time will separate winners from losers.

Survival-of-the-fittest consist of entrepreneurs/teams with strong driving forces representing a broad set of ventures. Picking-the-winners and idea results in a highly niched portfolio of thoroughly screened ideas within a quite narrow technological area – often sprung from the research of highly ranked universities.

Business support in addition to more general administrative services has been emphasised in recent incubator literature, and different researchers have made a number of descriptions of the types of services and support provided by incubators to incubatees. The business support services generally identified include entrepreneurial training and business development advice, as well as services concerning general business matters such as accounting, legal matters, advertising and financial assistance. Those of most concern are those related to business development and entrepreneurial training, including coaching and education related to business planning, leadership marketing and sales. One must note that the success of incubator tenants is not only dependent on the nature of these services, but also on how they are supplied.

## Financial model / cost per beneficiary

The setting up of the Take Off and CEBI required the investment of €1.1 million. The annual running expenditure of the business incubator requires circa €250,000 on salaries, €25,000 organisation of events, €15,000 travel and accommodation and another €30,000 for overheads. These expenses are in great part directly financed from the University's budget. Since incubation services are offered for free to students, the only rental income that University receives is from renting of office space (€85 per month) and open space (€50 per month) to third parties who are considered not to be students. Consultancy services are offered for free too, but non-students have to pay a one-time €5,000 which however can be converted in a share ownership by University.

Microsoft invested about €1.0 million in capital to set up its innovation centre. In addition their running expenditure is estimated to be in the whereabouts of €200,000 per year of which €75,000 are staff costs. Currently, Microsoft is revisiting their strategy for the next five years as part of the premises where they house the incubator remains unutilised.

MCAST still has not set up a financial cost centre for its business incubator. All expenditure is absorbed by the organisation and there is neither separate accounting nor allocation of staff time that is utilised in the incubator. This makes it all impossible to derive any estimated of how much it is costing MCAST to run its business incubator.

On the donors' side there are some initiatives that have been undertaken either at Government level through the provision of specific incentives and at private operators level through the creation of synergies and partnerships. One of the main challenges is to ensure that the efforts conducted respond in a coherent manner to the needs of the final beneficiaries.

Since business incubators generally focus on the high-tech sector by providing support for new businesses in various stages of development private companies could be a source of financing. A case in point is that in Malta the take-off incubator has signed a number of agreements with high profile companies. Take Off has valued partners and supporters that are all passionate about helping innovators, entrepreneurs and start-ups reach their goals. Take Off collaborates closely with the Microsoft Innovation Centre Malta through a range of initiatives and joint programs designed to support innovators, entrepreneurs and start-ups in Malta.

Price Waterhouse Coopers Malta supports Take Off -based entrepreneurs and start-ups by offering advice, mentoring and other in-kind support through its €1 Million Euro Start-Up Fund. Apart from Price Waterhouse Coopers together with the European angel investor network Go Beyond, a relationship has enhanced on fostering the entrepreneurial ecosystem in Malta that brings together investor-ready ventures and investors receptive to early-stage startup.

However other forms of financing are Grants and Subsidies. In Malta, the Malta enterprise offers a number of incentives and advisory services to support enterprises in their continuous development which are there to cover initiatives on employment sustainability, innovation, ebusiness and capital investment. Some incentives that are made available in Malta thru the Malta Enterprise are:

- Investment Tax Credits Tax credits to support investment and job creation, focusing on attracting new investment projects and promoting expansion or diversification of existing enterprises.
- MicroInvest Tax credits to support micro enterprises (employing less than 10) and the self-employed invest in their business, innovate, expand, implement compliance directives and/or develop their operations.
- CREATE Tax credits to support creative businesses whose economic performance is directly linked to the creative talent of those involved in the business. Further support is available to help the development of creative communities in artistic zones.
- Access to Finance Financial assistance in the form of soft loans, guarantees and interest subsidies mainly targeted to support new investment projects.
- Business Advisory Services Subsidised consultancy to support a business's particular needs for development.

## Possibility for other incubators – SWOT analysis

What follows is a SWOT analysis on whether business incubators in Malta can be delivered together with non-governmental organisations, schools or local authorities. For business incubators to be successful there is the need for a critical mass of ideas, resources and support. As evidenced in the introduction of the report, leading countries in business incubation on average have about one incubator per one million inhabitants. This is in direct contrast with Malta's three business incubators. The fact that resources are so thinly spread over three incubators is a cause of concern since the incubators fail to benefit from economies of scale.

The SWOT matrix below attempts to identify the strengths, weaknesses, opportunities and threats that arise if there is greater involvement at local community level.



### Strengths

Malta is a small island state where the sense of belonging to a community is widely cherished. People find it very accommodating that they can easily communicate with the authorities as they are within reach. Through personal acquaintance of the community, community leaders or school authorities can easily point out individuals who express entrepreneurial potential. In this way students can be though and exposed at an early stage to entrepreneurial activities. Such exposure would be of great benefit to students as most do not think beyond finding a job with government or a private company.

## **Weaknesses**

Businesses incubators require a significant amount of resources to be successful. Such resources refer not only to financial help but include also human and technical expertise. For such resources to be sufficiently available a country must have an adequate critical mass that makes such necessities possible. In fact the biggest limiting factor for business incubators in Malta is the islands' population size. Relative to other countries, Malta should have just half an incubator, when in reality there are three such units.

As mentioned above, it is evident that the existing facilities lack the adequate resources required to provide a quality service. Unfortunately, it is very common in Malta that the authorities or organisations instead of pooling the limited resources they have, end up competing against each other.

The setting up of a successful business is no small feat. It requires entrepreneurial acumen that most of time is an innate ability that is further developed through education. People who own such talent and are involved in the community or with NGOs are hard to find. Hence, local leaders or educators may themselves lack the ability to identify students or individuals who may prove to be potential entrepreneurs.

## **Opportunities**

Schools and communities at large can play an important role in changing culture about entrepreneurship. Even though resources may be limited, schools and NGOs together with the local councils can organise activities that raise awareness about entrepreneurship. Awareness campaigns about setting up one's business are crucial as these may present students with new opportunities that they were not aware about before. In Malta, educational awareness about entrepreneurship amongst the young is very limited; hence small projects are already a good step forward.

The organisation of such events can serve to identify promising students who may have talent and the relevant skills that make them hopeful future entrepreneurs. Such students may thereafter receive further guidance and counselling of what they can do to expand their knowledge with regards to entrepreneurship.

## **Threats**

The biggest threat to the fostering of an entrepreneurship culture amongst the local actors is the lack of interest in entrepreneurship itself. Unfortunately in Malta entrepreneurship is not given its due importance as it is considered something that goes beyond the remit of the educational system. Entrepreneurship is considered by many to be an opportunity only if other members of the family are in business. At the local level, entrepreneurship is at best

equivalent to being a shop keeper. This negative attitude towards entrepreneurship precludes those who are in position to spread knowledge from being more proactive about the subject.

This mindset about entrepreneurship impacts directly on the effort made in offering some entrepreneurship awareness in schools. It stands to reason that the time allocated to subjects in class is related to their importance in the curriculum. If entrepreneurship is considered not to be of any value added to students, than it is not surprising that only a miniscule fraction of school hours is dedicated to such activities.

### **SWOT – in brief**

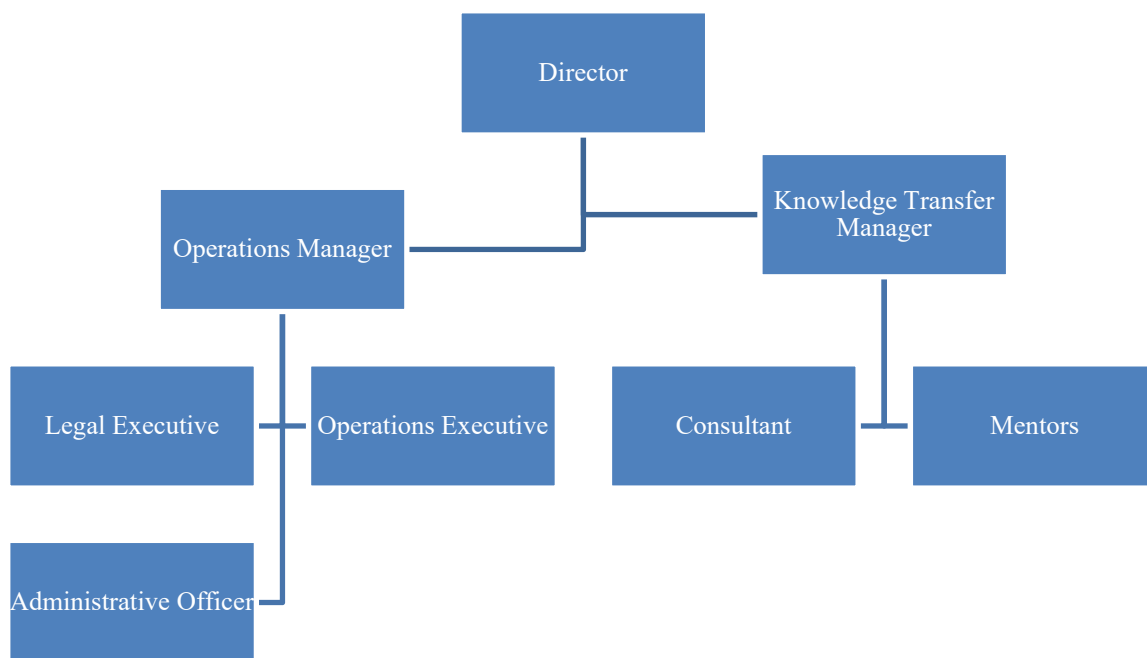
As indicated by the SWOT analysis above, it is very clear that local organisations or NGOs do not have the technical abilities and expertise to be involved in business incubators. It would be a significant leap forward if the communities learn to appreciate the importance of entrepreneurship in the first instance. Nevertheless, local communities can do their fair share by organising events that raise awareness and knowledge about entrepreneurship. These kind of activities can nurture interest in business among students at a young age. If children/youths become more interested in learning about business, schools may be in a position to identify those individuals who have potential to become tomorrow's entrepreneurs.



## Business plan

The main task of a business incubator is there to help innovative entrepreneurs develop their idea and bring it on the market. For all this to happen, there is the need for seed money, expertise in management, marketing and product development. All these expertise will help the incubatee to start off with his plans.

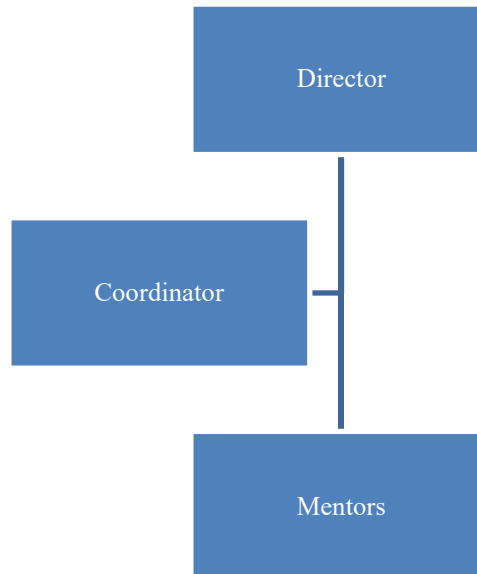
Below are the organigram charts of the business incubators at University of Malta, MCAST and Microsoft respectively.



At Take Off they have the most ‘complex’ organigram amongst the three incubators. The incubator is led by a Director who is helped by two managers, one that is responsible from overseeing the operations and the other is responsible from knowledge transfer. The former manager is responsible from the administrative duties and has two executives and officer under his responsibility – a legal officer and another two for the day-to-day operations. The manager responsible from knowledge transfer is responsible from the manning expertise consultation and mentoring. All in all, at face value this seems to be an ideal structure for managing an incubator but the Director feels that more should be done where consultation and mentoring is involved. More expertise is required and such help should be available for more hours. As mentioned above, this organigram costs the University about €300,000 to maintain. Over the last three years, the incubation centre has dealt with 17 incubatees.

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## BUSINESS INCUBATOR



MCAST's organigram is leaner as it involves just a director and a co-ordinator. The mentors' services are only requested on ad hoc basis hence their full-time load is more focused on lecturing than on the incubator itself. MCAST incubator so far does not receive the University's equivalent in terms of financial help, hence why the organisation is not yet so developed.

Microsoft's business incubator has only two full-timers. These two full-timers meet with around forty individuals per year who express the intention of incubating their idea. However at the end only about two participants manage to successfully develop their ideas. For Microsoft, a successful business is considered to be that venture which has a turnover of over a million Euros per year. Without any doubt this implies that the entrepreneur must seek foreign markets as well, since the local market is too small to support that kind of activity year in, year out. It is perhaps for this reason why just one or two participants manage to be considered successful.

Engineer (Business Development)

Administration and Marketing

All three business incubators offer consultation services or technical assistance in-kind but it is only Take Off that offers seed grants for businesses to Take Off. Take Off tends to recover most of its costs through share ownership, while Microsoft makes money from its products since the incubate develops services that use Microsoft software. The concept of cost-recovery is still not on the cards for MCAST.

## BUSINESS INCUBATOR

In principle the idea of cost recovery is very difficult for Malta's business incubators. The reason being that resources are spread between three incubators hence there is no economies of scale. Also given that the number of participants reaches just a couple of tens per year, aspirant entrepreneurs are usually themselves looking for seed capital and the success rate of innovative ideas is so low, it is next to impossible to have an incubator which is self-sustaining in terms of money. However, considering Malta's export oriented economy, it would be a mistake to consider the activity of a business incubator just from a financial point of view. Entrepreneurship has wider benefits to the economy when ideas are successful, hence the cost-benefit analysis over the long-term tend to be positive.

From a financial perspective the approximate costs required to set up and run a professional business incubator are indicated below.

<b>CASHFLOW STATEMENT</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Year 5</b>
<b>Building (premises)</b>	500,000	500,000	-	-	-
<b>Fixed Assets (machinery, equipment, tools)</b>	-	250,000	25,000	25,000	25,000
<b>Operating Cost (stationery, lighting, heating etc)</b>	-	-	100,000	125,000	150,000
<b>Seed grants</b>	-	-	100,000	150,000	200,000
<b>Directors fees</b>	-	-	100,000	100,000	110,000
<b>Administration</b>	-	-	150,000	150,000	160,000
<b>Consultants fees</b>	-	-	100,000	150,000	200,000
<b>Mentors fees</b>	-	-	50,000	100,000	150,000
<b>Marketing</b>	-	-	100,000	75,000	50,000
<b>Legal Officer fees</b>	-	-	30,000	50,000	70,000
<b>Other expenses</b>	-	-	50,000	65,000	75,000
<b>TOTAL (€)</b>	<b>500,000</b>	<b>750,000</b>	<b>805,000</b>	<b>990,000</b>	<b>1,190,000</b>

As illustrated above, a business incubator requires some initial capital investment. Based on what the University of Malta and Microsoft investments, a capital expenditure of circa €1,250,000 is considered to be necessary. Following such a one-off expenditure, the business incubator then requires a proper management structure and dedicated consultants and mentors who are willing to dedicate time and effort to the initiative. Together with the support staff and other ancillary services, it is estimated that by the third year from its start the business incubator will require €1,190,000 as re-current expenditure. This is about four times as much the current expenditure by University or Microsoft, but not that much far off the total expenditure incurred by the three business incubators. As it will be explained later on the in the conclusion, the pooling of resources may lead to economies of scale and such recurrent expenditure most probably will lead to better results overall. Also, it is worth noting

that by the third year, nearly half of the expenditure goes directly on incubatees as €550,000 is spent on seed grants, consultancy and mentoring fees.

No projection is being done for revenue as the incubator is considered as government investment in business nurturing. The Maltese government spends a lot of resources in tax deductions, tax credits, subsidies and grants to attract and maintain businesses in Malta. Such expenditure on business incubation is thus considered to be a further contribution by government in nurturing entrepreneurial activity in Malta.

## Method of support

Most of the individuals who seek help at business incubators do so because they lack the expertise of how to successfully develop a product, penetrate the market, lack of finance and no connections at all. Thus it is very important that the business incubator is able to provide all this kind of help in order to ease the difficulty for new to-be entrepreneurs. The duration of support may vary from project to project. At the University of Malta, an incubatee spends about three semester or nine months to develop its product. While for certain projects this may be too short, it is suggested that the incubatees do not spend more than 24 months in the business incubator. This makes sure that there is constant availability of space for new ideas and it helps to keep costs at a reasonable level. In the US, on average an incubator client spends around 33 months<sup>51</sup>.

The first stepping stone for individuals interested to become entrepreneurs should be some sort of education training of how to operate a business. People not coming from the business background may lack the knowledge of how things work out in finance or marketing. Nevertheless, getting a good grasp of knowledge in such areas is detrimental for a successful business. It is useless to have an idea which cannot be produced because of lack of finance or access to markets. In addition, academic background in the area helps to expand the frontiers of knowledge of the same candidates.

Following the academic training, it is important that the participants get the necessary support from mentors about the kind of service or product that is going to be developed. The mentors have to guide the participants in making sure that the product is innovative, that there is the demand for it, that it is financially viable and there is room for growth once there is market penetration. Once all these dilemmas are addressed, participants can go to the drawing board to start designing their product or service.

Concurrent to the design of the product or service, the incubatees must also think of how they are going to finance their project. Seed capital or crowd funding may be two options but all rests with the institutions or the general public who ought to be convinced that the idea will make it to the market. Hence why it is very crucial that the incubatees are mentored both by their lecturers and established entrepreneurs. Knowledge transfer from experienced people in the area is very important since most of the individuals setting their venture would lack such experience.

During the incubation period, the incubatees would require to make use of equipment, machinery, software or other infrastructure. This kind of support is very important as without it would be next to impossible for the participants to develop their product or service. Entrepreneurs participating in the business incubator may provide additional help in this area by offering the incubatees to make use of their equipment if this is lacking from the business

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<sup>51</sup> [https://en.wikipedia.org/wiki/Business\\_incubator#cite\\_note-knopp2006-8](https://en.wikipedia.org/wiki/Business_incubator#cite_note-knopp2006-8)

incubator. As explained below, entrepreneurs may also offer other service in-kind which may still prove to be useful to the incubatees.

## Education path

The cornerstone of a successful venture requires a knowledgeable entrepreneur. Out of the three incubators, it is the University of Malta which dedicates a lot of attention to this detail. Through CEBI, the University of Malta delivers a course at Masters level which endows students with the necessary skills to set up and run a business in today's economy. In fact, the Masters Programme in Knowledge-Based Entrepreneurship or MEnt is aimed at graduates and professionals who aspire to launch successful knowledge-based entrepreneurial ventures.

This course was designed for Science, Engineering, Information Technology, Media, Communications and Humanities graduates interested in launching their own business start-ups. However, of the 75 students who have undertaken the course to date those from the professional adviser disciplines of law and accountancy have found it particularly valuable as have others from diverse backgrounds including physicians and soldiers.

This innovative, hands-on course is held over a period of three semesters full-time with face-to-face tuition imparted over four week-long intensive training periods, during the first part of the course, coupled with intensive personal mentoring sessions during the subsequent dissertation period. Topics covered include an Introduction to Entrepreneurship, Innovation, Strategy, Marketing, Finance, Risk Management, People and Project Management, Market Research, Raising Business Finance (Debt and Equity) and Business Planning. A mentored project allows students to develop a feasibility study on a business of their choice, which leads to a final project consisting of a detailed business plan and funding presentation that can be applied in real life. The study units are taught by foreign and local lecturers with assessment by progress tests and written assignments related to the production of business documents. The course was developed in conjunction with the technology-transfer unit of Oxford University.

Students who have been accepted for this Master Programme have the option to terminate their studies following the completion of 60 ECTS study units, and in this case will be awarded the Diploma in Knowledge-Based Entrepreneurship. On the other hand, these students may opt to terminate their studies having obtained 30 ECTS credits, including the first study-unit, and in this case shall be awarded a Certificate in Knowledge-Based Entrepreneurship. (Students shall only be eligible for one award – the highest – through this degree programme.)

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**BUSINESS INCUBATOR**

<b>Module</b>	<b>Study Unit</b>	<b>Module Title</b>	<b>Intensive Week</b>
1 & 2	EBI5001	Introduction to Entrepreneurship	Week 1
3	EBI5002	Creativity and Innovation - From ideas to products and Services	Week 2
4	EBI5003	Marketing and Strategy for Entrepreneurs	Week 2
5	EBI5004	Business Planning for Entrepreneurs	Week 3
6	EBI5005	Enterprise Finance - Funding for Growth	Week 3
7	EBI5006	Risk Management - Products and Projects	Week 4
8	EBI5007	Performance Management - People and Organizations	Week 4
9	EBI5000	Mentored Entrepreneurship Project	Semester 1 to 2
10	EBI5008	Final Entrepreneurship Project	Semester 3

As evidenced from the course timetable, the Masters equips the student with the necessary knowledge not only in setting up the business but also in marketing and financial skills. The innovative part in this course is that during the viva of the dissertation, students have to manage to sell their innovation to the examiners in a similar way as if they are requesting finance to fund their product or service from a group of investors. In a nutshell, the course goes beyond mere product development. University of Malta makes sure that the students are talented enough to know the ABC of how to run the business itself and focus not just on product innovation which is already a challenging feat itself.

## Concluding remarks

It is evident that Malta with a population of less than half a million should better focus its efforts in having a professional run business incubator rather than different organisations have their own incubators. Thus, it is being suggested that all interested parties should get together, pool their financial and technical resources in order to make the best out of the limited resources available.

It is being proposed that there should be a board of directors that is made up of members from University, MCAST, private businesses and government representatives. The role of board of directors is to oversee the business incubator is achieving the desired results. The board of directors should also be responsible from assuring that the incubatees are getting good quality services and the necessary help to set up their ventures. The board should be also responsible from the adjudication of the seed grants.

It is being advised that the board of directors outsources by a public call the role of a Chief Executive Officer who is responsible from the administration of the business incubator. The CEO's role is that of overseeing that the business incubator has an efficient and effective management, professional education services and constant link with business partners. Furthermore, the CEO, has to make sure that there is constant flow of information between the key players of the incubator in order to ascertain the highest standards. The CEO should be paid a basic wage, with most of the salary linked to a performance based approach.

The education directorate will be responsible from delivering the academic knowledge that entrepreneurs would require. This is already in place as there is MEnt. However, other similar courses may be developed even at a diploma level which may still endow the student with further skills but not necessarily at Masters level. The directorate may consider developing ad hoc specialised courses which may provide the students with specific skills for certain sectors or markets. The directorate needs also to train mentors that follow the students during the course of product development. The education directorate mentors are different from mentors who possess more business acumen. Education mentors can help students by applying in practice the knowledge transferred from the courses. It is another form of hand holding which can enhance the learning curve of students at such delicate time which can be the make or break of their innovation.

The participation of the business community is equally important. A business incubator isn't an incubator at all if there is no involvement from the business community. Entrepreneurs bring with them their experiences and knowledge to hopeful entrepreneurs. More important, is that entrepreneurs can facilitate the market penetration of the infant venture through their established contacts. Most of firms do not manage to be successful as they have to struggle to penetrate market channels. The business community can also help by providing sponsorships in kind. A case in point is Price Waterhouse Coopers (PWC). PWC offers the

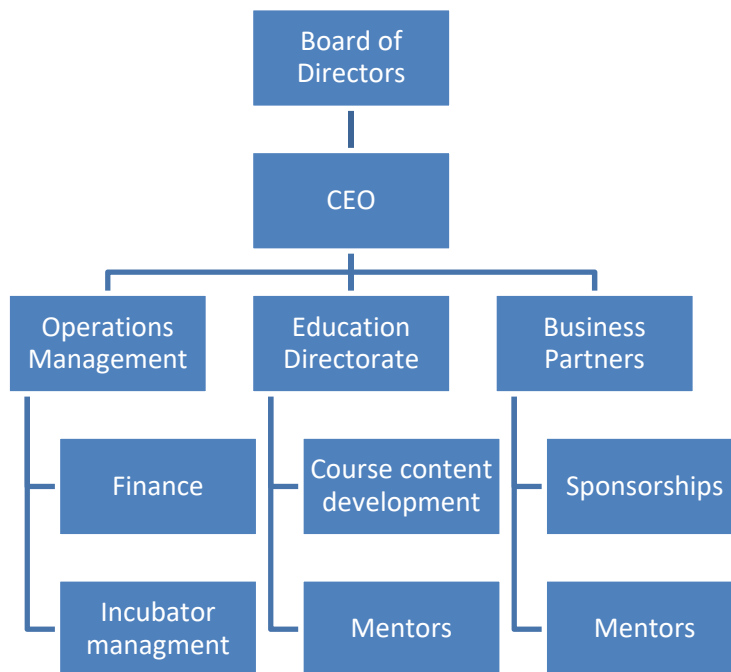


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## BUSINESS INCUBATOR

University of Malta incubatees services in kind which total up to €1.0 million over a five year period. Sponsorships in kind may consist of consultancy services in finance, marketing, business plans and human resource planning. Entrepreneurs involved in the business incubator may rally support among the business community to offer more of such service to the service users. This in return may also help them to take on board new ideas that may be developed in the incubator. In a way it is very similar to what Microsoft does. Thus the sponsorships in a way may be sold as a means which may generate additional turnover for the business itself.

The benefits of having all this under one management is that the various talents that today are scattered under different organisations come together and share their knowledge. Bringing together different students with different academic and vocational abilities will be of benefit to all.



## MODEL OF BUSINESS INCUBATOR FOR VOCATIONAL SCHOOLS IN ESTONIA

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31 grudnia 2015

## Table of content

<b><i>Table of content</i></b> .....	<b>74</b>
<b><i>Introduction</i></b> .....	<b>76</b>
<b><i>Estonian educational system</i></b> .....	<b>77</b>
Vocational education system in Estonia.....	77
<b><i>Existing business incubators in Estonia</i></b> .....	<b>78</b>
SURVEY: Existing incubators .....	79
Interviews with business parks and vocational education institutions .....	80
<b><i>Business Incubator for vocational companies</i></b> .....	<b>87</b>
Model of incubator.....	87
The concept.....	88
Start-up culture in Estonia .....	89
Outside sources .....	89
<b><i>Possible legal frames of incubator</i></b> .....	<b>91</b>
<b><i>Possible sources of financing</i></b> .....	<b>92</b>
Cooperation partners .....	92
Funding opportunities for incubators.....	93
<b><i>Vocational incubator</i></b> .....	<b>94</b>
Business Plan.....	94
Investment cost.....	94
Infrastructure .....	94
Personnel .....	94
Earnings .....	94
Funding .....	95
Creating an environment.....	95
Technical infrastructure.....	95
Security .....	95
<b><i>Support offered in incubator</i></b> .....	<b>97</b>
Services .....	97
Sales support.....	97

---

**BUSINESS INCUBATOR**

**Marketing..... 97**

**Legal counseling ..... 98**

**Project writing..... 98**

**Accounting ..... 98**

**Secretarial service / receipt of orders ..... 98**

**PR service..... 99**

**In conclusion ..... 99**

***Training of incubator employees.....100***

***SUMMARY.....102***

## Introduction

The decline in the working-age population in Estonia will accelerate over the coming years. Demographic processes are very slow to react to the political measures and the substantial influx of foreign workers has still not happened. The number of young workers in the labour market will decrease even faster. Nonetheless, finding a job is difficult. The reasons for the overall labour force decline are similar to other Eastern European member states of the European Union: the migration to higher-income countries, an aging population, the growth of disabilities.

Young people are in a paradoxical situation: their number is decreasing, but often they do not have, nevertheless, been able to find full-time work. In the late 1980s, there were 26,000 births a year, now the corresponding number is 14,400 (2015). In the early 1990s, when Estonia was freed from the Soviet Union, 12,000 children a year were born; the number of births will fall further, when this generation will become fertile.

Vocational education system still produces unemployment. There are several reasons for this, including the lack of a dual system and the mismatch of curricula and the actual needs of future employers. Estonia - one of the few EU member states - is still not using the dual system, in which vocational schools and employers would be closer to each other. One way to combat unemployment is to encourage the creation of businesses among graduates of vocational schools, vocational schools do not offer currently business incubator services for vocational companies.

## Estonian educational system

The first priority is the reform of the secondary school level, under which the State takes upon itself secondary school maintenance obligation from local governments. This is mainly due to the low number of pupils. The number of pupils is set to decrease drastically in the coming years. All schools, from primary schools to universities compete against each other for students and pupils.

After the end of basic school (9<sup>th</sup> Grade), students are broadly three options:

1. Go to the secondary school (gymnasium) to learn more.
2. Go to study in a vocational school and acquire specific professional skills.
3. Go to work or becoming NEET - ics (not in education, employment or training, ie, not working and not acquiring education).

In Estonia it's compulsory to finish the last class (9<sup>th</sup> Grade) of the basic school, then there is no further obligation to the young age of 16 to study. The list above looks like the statistical ranking of the pupils' choices after the end of basic school.

## Vocational education system in Estonia

Over the past ten years, the reputation of vocational education in Estonia has begun to improve. Vocational schools are getting rid of the burden of the Soviet past and students' own perception that vocational training centers students are somehow inferior or weaker in academic performance. Behind this positive image are a number of factors, but in fact it is mainly due to the finances allocated from the EU structural funds, thanks to which schools have been renovated as well as dormitories, as well as new equipment has been bought used in teaching. It is also thanks to the European funds, which have allowed the schools to open to new and interesting educational programs, ranging from fish farming to horse caretaker.

The state has also decided that the schools should be better marketed. On the other hand, marketing is needed since the financing of education in Estonia is based on so-called head money. As a result, all schools will compete with each other for students to increase their budgets. As of 01.01.2016, there are 1.33 million people living in Estonia. There are 37 vocational schools and five universities of applied sciences. The majority of vocational schools (80%) are public schools, and the remaining 20% is divided equally between private VET institutions and municipal vocational schools. In Estonia vocational schools may be joins by everyone who wishes to do it. There are courses, where there is no basic education requirement. The candidate is not required to possess a previous vocational school or college degree. All are expected to develop.

At the same time, the state pays the students in vocational schools and subsidises transportation costs to school to support and encourage their education. Study grants also

aim to motivate students of vocational training centers successfully past their curriculum in the prescribed time. The main support (60€ per month) is paid from the second semester of studies according to the study results. Also, students can eat subsidised school lunch, and request the reimbursement of traveling expenses. There are schemes to support students students in financial difficulties.

One telling example is the situation in Järva County vocational education institutions. Currently, in Järva county live approximately 30,000 people. Statistical Office of the darkest outlook sees that 2040 Järva county has just 20, 000 people. Maybe in 20 years, as much as a third of the county's population will disappear. Mäo Industrial Park is located in Järva county; and so is the Järva Vocational Training Centre.



Picture

no 1 Järva Centre for Vocational Education in Paide (Photo: Eero Mikenberg)

There are a number of large metal processing companies in Järva county. The largest is the Paide Machine Factory (PMT Ltd - [www.pmt.ee](http://www.pmt.ee)) producing Meiren snowplows, HUMUS farm equipment and much more. Or Konesko ([www.konesko.ee](http://www.konesko.ee)) which produces electric motors for Finnish capital-based international company KONE OY. Both companies argue that for a long time there is a shortage of metalworkers in this county. Both the enterprises have contacted the Ministry of Education and Science, as have the director of Järva Vocational Training Centre, Mayor of Paide and the Governor of Järva County to address this issue. Järva Vocational Training Centre should open a new specialty: metal works. But the Ministry says “thank you for your worries”, but there will be no consequences.

## Existing business incubators in Estonia

In Estonia, a number of business incubators are operating. Some of them are specialized in specific business sectors such as the creative industries and young entrepreneurs. Others

focus on, for example, manufacturing enterprises. At the same time, we have no business incubators, which would specialize in vocational firms.

The general trend seems to be to provide support to export- oriented, "new" or "fashionable" companies, start-ups or companies in creative industries. Companies that represent more traditional sectors of the economy will receive less attention, however. Incubators operate mostly in larger cities, and not in rural areas where the majority of vocational schools is located.

### **SURVEY: Existing incubators**

In order to determine the current state of business incubators, we conducted a nationwide survey for this manual. Our investigation discovered a number of interesting aspects.



Picture no 2 An incubator operating at Tartu Industrial Park. (Photo: Eero Mikenberg)

The study results will be presented in greater detail below. In general, it can be said that the existing incubators do not seem particularly interested in vocational companies .



## Interviews with business parks and vocational education institutions

Under the second phase of the project, we conducted interviews in several business parks and vocational training institutions. The aim of the survey was to identify existing parks' earlier experience with vocational companies and the attitude of the possibility of such companies offer their services.

### Mäo Industrial Park

We had a conversation with representatives of the Mäo Industrial Park, which is situated in a logistically location in central Estonia, next to the crucial Tallinn -Tartu highway. Mäo Industrial Park is operated by a company called Mäo Invest, and it is a self-sustaining park, which belongs to private owners . In total, we asked them 11 questions. Mäo Invest main tasks are office space leasing and land sales on the territory of the industrial park. They also provide their customers with cleaning services, electrical maintenance, lifting services and a variety of office and administrative services.



Picture no 3 Mäo Industrial Park next to the Tallinn-Tartu highway (Photo: Eero Mikenberg)

Mäo Industrial Park does not any services to start a business there. It also will not offer sharing-economy type equipment or devices. Mäo Industrial Park has very little exposure to vocational education. Its two largest clients - wooden windows and insulating glass manufacturer Wiking Window and Mäo Glass respectively, produce mostly using labor with vocational education background. Mäo Industrial Park has one of Estonia's largest vocational training institutions in the immediate vicinity, Järvamaa Vocational Education Centre.

## Tallinn Incubator

Next, we communicated with an incubator in Tallinn, the capital, which has been initiated by the Tallinn City Government and has been operating since 2009. They do not recall there being any project managed by former vocational students, but team members have included people with vocational background. Tallinn Incubator helps the affiliated companies to achieve business goals through individual development programs, which last 24-36 months. The six-month program will be divided into lots, which will end with a report on what has been achieved and further target setting. It also offers its "babies" following services: consulting, training, networking services and a quality working environment for start-up companies.

In addition to providing basic services to start-up companies, the incubator offers individual consultations to those who are interested. They involve a variety of well-known mentors in their activities. One goal is to guide clients on exports. In 2009, for design and creative enterprises, in the so-called Baltika Quarter opened its doors Creative Incubator. This is a suitable place for creative industry businesses. In addition, an incubator can rent offices, studios as well as small premises for the production. Kopli business incubator is oriented towards small production and experimental development.

Tallinn incubator also provides a variety of support services: a physical "home" - the studio or the office - the place where the company is surrounded by fellow business-owners. They can discuss, exchange ideas and make progress in a fun way. The room rental service includes: a fixed total cost of a furnished office and studio spaces, meeting rooms equipped with modern presentation equipment, a secretarial service, a kitchen and recreational rooms use.

Rental rates include for each tenant a lockable cabinet, which is convenient to organize their daily life. Furthermore, Wi-Fi can be used. Service price for the business premise is 45 € + VAT per incubant. Equipment is shared, for example, office equipment and kitchen appliances. Tallinn Incubator has confirmed interest in cooperation in the field of vocational companies.

Links exist to other institutions, but because of the incubator in Tallinn is not a typical business park, just an incubator where they will help and support young companies, it is difficult for them to cooperate with business parks. Namely, business parks work mainly with large companies, so their format is different. Close cooperation is taking place with the national agency for EU grants called "Enterprise Estonia" (EAS) and the Tallinn City Enterprise Board, which operates as part of the municipal government. Tallinn Incubator is not a self-sufficient entity.

These are two examples of business incubators and industrial parks that illustrate the situation in Estonia at the moment. The industrial parks in private hands operate in the real estate business by selling or letting land, buildings or some parts of the infrastructure. Rental contracts include real estate management services. Public sector has launched business parks and incubators where the emphasis is placed mainly in the design or start-up businesses. This is a glimpse at the current situation in business incubators.

## The story of client of the Tallinn Incubator

Interview with Tallinn Craftory– [www.nahk.ee](http://www.nahk.ee) [www.craftory.com](http://www.craftory.com)

Interviewee – Timo Vikson – sales magnate

Let's get acquainted. Who are you? Tallinn Craftory (Leather Workshop) began operations in late 2013, but the idea was carried further in the past couple years. One of the founders of the Tallinn Chamber of Leather, Mihkel Männik, began to import leather bags for smartphones from China. It was cheap, compared to our modern product, not really the highest quality product.

The second version of the product, however, comes with Mihkel EAA (Estonian Academy of Arts), professionals and the emphasis was on the quality of the skin and the second of which was already higher quality version leather pocket for smartphone. But despite this, at some point, it started to go downhill, and Michael decided to leave.

Then was the time taken off, however, but in our hearts we failed to find peace, and Michael decided that he wanted to make a decent leather product. The first product was a laptop sleeve, or slim note sack. When note sack was ready, Mihkel invited me to arrange the sales, since he knew that I was in sales. Further to develop their own website ([www.nahk.ee](http://www.nahk.ee)), as well as new products and models. Also, to open a new e-shop, which is located at ([www.craftory.com](http://www.craftory.com)).

### **The company's founders and owners do they have a vocational training background?**

Good question. In fact, neither me nor Mihkel have previous exposure cannot craft, or leather , or leather work. I have studied journalism and Michael air traffic control. In this respect we have been in an extremely exciting that we could learn by doing, without much theoretical knowledge.

### **What do you think, is it that you have no prior exposure to the sector to be rather an advantage?**

Yes, I believe that it is rather a plus for us, since we, therefore, do not set ourselves borders, we are not afraid of making our ideas happen. I think that the lack of prior exposure has helped us to develop so-called out-of-the-box thinking.

### **How many employees do you have currently?**

At the moment we have four full-time employees, one of whom, Mihkel resides in London, where he organizes the launch of our sales network. In addition, we also have five part-time

people who work in our pop-up shop. In our personnel policy, we have consciously chosen students as employees. Labor recruitment has not been a problem, but rather the opposite. We can choose from a number of candidates, we do not offer a extraorbitant wages. The wage level we have is the Estonian average .

**Are employees trained by you or is it the vocational education at Kopli Vocational School sufficient?**

We train employees ourselves. I am familiar with the Kopli Vocational School, that is probably the only vocational education centre is, which educates students for professional leatherwork. Unfortunately, I have not had contact with them so far.

In employee training, we put emphasis on quality. This means that we will make our employees all of our products understandable, including the raw material. Our leather comes from Sweden and it is a vegetable-tanned leather. At the same time talking about the design language, which is a relatively Nordic, and it is also a very important part of our history (story). And finally, sales training. Our goal is not to sell at any price. Our goal is that the customer will buy from us a good emotion, and should come back again and again. Also, try to keep the work environment 'chill' with zero pressure. We organize team outings and socializing events that helps keep staff motivation high.

**Where do you find inspiration for your products ?**

With inspiration it is like this: it is very difficult to come up with something completely new these days. We will try to improve existing products and make them better and better in every sense. One should try to draw inspiration from everywhere . For example, we had a pop-up store at Tallinn Airport , where we had a prototype off the portfolio or great sack. Until at one point came along Estonian Prime Minister Taavi Rõivas and said: I want to buy it. Surely we could not refuse.

**You mentioned that you act in London. Why there ?**

In London, we have acted for a year now. Why London? The point is simple, as it is one of the so-called fashion capitals, where there are a lot of people. Second, the fact that the clients should be able to communicate in their native language and English is for us the simplest solution, because none of our team speaks Latvian, Finnish and Swedish.

**How have you adopted in London?**

Competition is intense and tough. But when doing the hard work and you have a little bit of luck, like we did, you can have a perfect set-up there. For example, our products are represented in one of London's very sleek boutique districts, Baker Street. Our products can be bought in boutiques called the 'Trunk'. There we got a foot in the door so that the company was contacted by the fashion magazine 'Monocle' editor in chief, who happens to be

boutique's 'Trunk' owner 's partner. For some time ago there was an article about us in this magazine. But our goal is access the London design market by opening a pop-up store there.

**When and why did you decide to join in the Tallinn Incubator?**

It was the spring of 2015, when we took the decision to join and move into the Tallinn Incubator. For us, it was a pragmatic choice, because before we had had rented rooms in the Rotermann quarter. There was an old house, and we had very poor facilities. Also, there was no possibility to receive people customers. One argument was that Tallinn Incubator offered good facilities at a good price. This year at Tallinn Incubator we have moved three times due to a confined space.

**What are the services offered by the incubator are using?**

The list services that we use is not very long, since we have previous experience in business. However, in addition to using the space, we use consulting service, which includes in particular the issues of marketing and public relations. Most beneficial have been our mentors, thanks to whom we have received contacts abroad. We got the a € 5,000 grant for creative industries' companies from Tallinn Incubator for export activities. Also we have received a positive decision by the Enterprise Estonia (EAS).

**Are you satisfied with the experience gained from the incubator?**

Our experience has been positive. We have also received help to enter the export markets, and has always found time for us.

**Does the incubator is aid to small start-up companies?**

Yes, certainly. Those who have not previously been exposed to business can receive a lot of help here. They make everything clear on accounting principles, taxes, etc. There are valuable contacts here.

**If you were in the incubator manager, then you would change the present system?**

We have missed the real creators, who also had had previous experience. Especially welcome are people who have export experience. I believe that it could help to develop more companies and ideas from here.

**Tartu Centre for Vocational Education**

Tartu Vocational EDUCATION Centre is located in the second largest Estonian city of Tartu, where he about 100 000 people live. Tartu is also called 'educational Mecca' since here is

located Estonia's first university - the University of Tartu. In Tartu is also located the Ministry of Education and Science, which is the only ministry, which is located outside the capital.



Picture

no.4 Main building of Tartu Vocational Education Centre (Photo: Eero Mikenberg)

Tartu Vocational Education Centre is the biggest vocational school by the number of students, where in the school year 2015/2016, 3099 students enrolled. Over the past decade, the number of pupils in the school has not fallen below 3,000 students, but the heyday was the 2012/2013 school year, where 3,500 students acquired knowledge. At the Tartu Vocational Education Centre, over 60 professional courses are being taught.

A Business Incubator designed for students only exists in their school papers and future plans. Tangible results have not been reached for organizational reasons (lack of money). The school management supports the idea of an incubator. This academic year is the Tartu Vocational Education Centre's Entrepreneurship year. Business advice is integrated in the curricula and our aim is to move in the direction of the establishing of an incubator. To start a joint incubator on the basis of several vocational schools is not feasible from the logistics point of view. Cooperation with private companies takes place at the school already, but it is still limited to business administration curriculum.

Entrepreneurship training is not offered separately at the school. Teachers advise students in their spare time, and out of the sense of mission. However, the school is in close communication with companies offering internships. We also discuss the 'workplace-based learning' format with companies. We could also implement in vocational education the so-called 'smart specialization' program. At least initially, we should stick to 'the grass roots level' and should not strive to achieve higher and more complex ideas/ventures since it is important to start an incubator beforehand, after which could be further developed and improved.

In order to foster entrepreneurship in the school, we are quite flexible and forthcoming towards our students. At the school, students can use the school equipment for their own needs. The school also offers a range of services against payment to our clients from outside

the school, hair and beauty treatment, catering, bakery, teaching in repair, woodworking and metal works. The works are carried out by the students themselves. However, none of these services are being offered actively. Who knows about it, comes and asks. However, we could give students a chance to practice in sales, which would be very important in business. If you have the desire to do business at the school, conditions to be agreed upon, as we have no such experience previously.

In Estonia, as far incubators for vocational companies are concerned, lower level institutions try to be as flexible as possible, but this is not enough. To sum, in Estonia, there is a real need for such an incubator, as well as the expectations from both the schools and the students, teachers, vocational schools and businesses in the field of vocational training, on whom we would base the business incubator. Otherwise, for example, Paide Machine Factory would not start its own incubator for product development.

## Business Incubator for vocational companies

Our business incubator model - based on three pillars, which are, firstly, diversity of incubants, which means the companies or entrepreneurs from different walks of life. To be figuratively represented by multimedia designers, builders, tailors, cooks and confectioners. Secondly, the uniqueness, that the exact same activity companies will not have more than one representative. And thirdly, it would be cooperation among all sides, which would create synergy. Synergy leads to further automatism in cooperation, but for the young start-up companies it would be a great help in creating and maintaining the system. Automatism would also help the start-up businessman or businesswoman cope well with those tasks that are not attractive.

### Model of incubator

Model incubator must demonstrate great flexibility in its operations. We have to be flexible and this should be in our DNA. The yardstick for flexibility would be incubants' success and independence. The sooner they start delivering on their own, the greater the likelihood that they will be in their next life successful. Entrepreneurial world is a world without borders. Everything is allowed, which is not prohibited by law. The more risks you take, the more success you may enjoy.

We could find prospective customers in vocational education centers, and at the events organised by the Unemployment Insurance Fund. Also, we would use the Internet and social media and participate in major Estonian educational fairs and actively communicate with the media. We would organize variety of workshops in collaboration with industry and other partners.

One example of a science park, which has established its own incubator is the Tartu Science Park. Tartu Science Park is located at the border of South Centre neighbourhood.





Picture No 5 Tartu Science Park

## The concept

The objective of creating a separate business incubator for alumni and students of vocational education institutions, by helping to eliminate some of the barriers to future entrepreneurs from the road. Barriers identified in the framework of this project, by a survey among Estonian vocational schools' current and former students. According to the above- mentioned study, the key reasons that prevent the creation of a business is the financial aspect and the unwillingness to 'try it alone.' Using the principle of the so-called sharing economy will help to reduce substantially the financial burden on a start-up company. Moreover, it is possible to make available mentors to those who need them.

## Start-up culture in Estonia

There are support networks for the newly created companies, so-called start-ups, such as Business Angels, venture capitalists. But these networks are primarily interested in technology and biotechnology companies. More traditional areas, such as plumbing companies or barbershops, do not attract such interest.

Companies in traditional areas can apply for a start-up-grant through the Enterprise Estonia ([www.eas.ee](http://www.eas.ee)), which is the National Agency for the EU support. Support amount is up to 15,000 euros, but the applicant company must create at least two jobs, paying average salary at least. After the third year, sales should reach 80,000 euros, which can be problematic for small-scale service companies. If they do not comply with this requirement, the support is canceled, which most likely will lead to bankruptcy. However, it is unlikely that such a turnover would be realistic in a few years, hiring two employees at medium-wage will push up labor costs to unsustainable levels.

## Outside sources

Getting loans from banks is not likely for a start-up company, due to the lack of suitable collateral assets. Even if a bank or other financial institution would be willing to issue a loan without collateral, it definitely will seek sureties from the board member. However, if the board member is young and has no assets, and regular income, this surety has little value for donors. Thus, the young company needs to grow from its own resources, without the involvement of foreign capital.

At this point we cannot ignore the financial risk aspect for a young entrepreneur, who is responsible for the company's financial obligations to the financial institutions. If the bank should accept such a loan guarantee, but the company would face payment difficulties, there is a risk that private surety shall be enforced. In this case, it is not only just the borrower company, but also the owner / board member who is in trouble. One would be well advised to be conservative in dealings with creditors at this stage. Joining the number of business incubators will provide an opportunity to avoid investments or share some costs, it is also possible to consume some services collectively and thereby bring down the price.

### How to start?

Before the start of the so-called business incubator project one should have realistic expectations. If the foundation is ready, one can move on in the direction of fine tuning, ie, what services to provide, at what price, etc. The main issue is the business plan of the founders of business incubators is their willingness to contribute, at least in the initial phase. When this readiness is rather modest, one should hold back costs, by starting a vocational school on their own premises, for example.

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## **BUSINESS INCUBATOR**

It is clear that a vocational business incubator cannot be regarded as a purely commercial project. The goal is not the greatest possible profit, but rather to create an environment for young vocational school graduates to start a business.

## Possible legal frames of incubator

Incubators operate primarily in the form of foundations or, in exceptional cases, as NGO-s (non-commercial organizations). There are a number of tax-related issues, why these legal forms is preferred:

1. Foundations may produce a loss, without risking being deleted at the Commercial Register. Businesses will be deleted when the equity has become negative as a result of the continuous loss and the shareholders/ partners have failed to add capital.
2. Volunteer work is allowed in non-profit organizations, while in companies only board member may work without financial compensation. In private companies, regardless of size, labour is taxed in full.
3. The tax authorities could implement corporate fringe benefit costs, which it considers non-essential from business perspective. However, foundations and non-profit organizations can more easily justify the need for the improvement of the working environment (purchase sofas, televisions, etc., in order to create a cosy and creative atmosphere in the incubator).
4. The foundation is the most preferred form because it is created for a specific purpose, for example, "establish and develop a business incubator." In addition, the founders are legal persons who "possess" the foundation through their founder status. This ensures the founders' control over the assets and activities of the foundation.
5. An NGO is a members' organization has, where anyone who honours the statute and corresponds to relevant laws, can join. NGO's aims tend to be more abstract, such as "promote business incubators in Estonia." In the case of incubators, where large investments are involved, and there are credit or business-related risks, the NGO does not seem to be the optimal choice.

## Possible sources of financing

Business incubator is not very likely a profitable venture from a purely financial perspective. This fact significantly limits the circle of potential founders. According to the Commercial Code, companies must seek profit, so it is not possible for them to participate in the long-term unprofitable projects.

The potential target group of business incubator founders are usually public institutions such as local governments, educational institutions, county and city governments. However, there are also examples where the company sets up the incubator (Paide Machine Factory).

There are currently no business incubators, which would be vocational school-based, therefore our so first target group would be VET institutions. Since vocational training institutions have also "owner", the Ministry of Education and Research or private capital, it largely depends on the decision of the owner, whether a vocational incubator will be established.

## Cooperation partners

We see all interested parties as our partners: public sector has a role at both national and local level, vocational training centers, the private sector and the third sector, involving representatives business organizations. It would be important that any partner has the same weight that the other. Here, in particular, the state must become more flexible and trust the people on the spot. Be it the leaders of local government, county government officials, school administrators, teachers, students, or business representatives.

We can learn from foreign partners how to cooperate. Let's take the example of Malta: Malta is three times smaller than Estonia by the size of population, but both are small countries. Every year, the Malta College of Arts, Science & Technology (MCAST - <http://www.mcast.edu.mt/>) organizes a conference, which brings together government representatives from the Ministry of Education and Science and enterprises. Business representatives tell the state what kind of specialist they need in the next 2-5 years, and the country is trying to do everything possible to fulfill the wishes of entrepreneurs by training of a corresponding number of professionals.

We need a similar cooperation scheme in Estonia, which includes representatives of various state agencies and businesses, in order to put in place a training schedule according to the specializations that are actually needed.

For the incubator it is most important that the state continues the same policy as with vocational education centres. To avoid indecisiveness in the meantime, but that there would

be synergies between the school and the incubator. It is important to have the assurance that not every year or two years the plans will be changed, because the results do not come immediately.

The beginning of every new thing is uncanny, and it will take some time before people embrace this. Therefore, it is necessary to give time for the new system to work properly. We see entrepreneurs as partners, in particular major production companies engaged in exports. Often Estonian companies face a situation where, having entered a new market, they soon to fall short of the necessary production volumes. Here, we would see a solution whereby some work would be outsourced to our incubants. This co-operation would be useful for all parties, including the state as people get a job and tax money would support local life. But here one should take into account that there may be project-based orders. For three months you have a job to do, and for two months you do not have it. The next topic is the co-operation with students, which is the most important aspect for us. We do, after all, incubators for students, so we should also take into account their wishes. Inevitably you would like to change over time, so the incubator must remain flexible in the development process. Already in the early stages of the creation of incubators, when putting the idea on paper, it is necessary to include vocational students in the process, because for them we create it.

### **Funding opportunities for incubators**

In the past, the European Union's financing period 2007-2013, Enterprise Estonia distributed EU structural funds for the creation of industrial clusters and creative industry incubators.

Enterprise Estonia is offering support to business incubators in the year 2015, 1.6 million euros to finance infrastructure development for business incubators in the creative industry.

Currently, similar support is not offered, the next round is expected to be opened in 2017.

## Vocational incubator

### Business Plan

To start the creation of new incubator according to the needs of newly established companies is a task that requires thorough planning. It is advisable to study the experience of similar businesses in this field. The traditional business plan, with the aim of making profit, is not suitable in the case of an incubator for vocational companies. Rather, it makes sense to draw up a budget with cost/income calculations, and find the missing amount necessary to cover the financial shortage. In our view, it is not realistic to expect an incubator for newly established vocational companies to break even.

### Investment cost

Depending on the availability of suitable premises the size of initial investment can vary to a large extent. The construction of a separate building would be a very ambitious plan, and one would rather be advised to start on in existing premises or, if necessary, in rental premises.

### Infrastructure

Technical infrastructure includes facilities and equipment. In most cases, the business parks of Estonia will start operations in existing buildings.

### Personnel

Personnel costs are significant, considering the relatively high and fast growing average salary (about 10% per year). Additional problems are created by the shortage appropriate specialists. We encourage students to use the opportunity themselves by filling positions part-time, while continuing their study.

### Earnings

Income that will be received from incubants is likely insufficient to fully cover the initial costs. In addition, the park can earn additional income by offering a variety of services to both tenants and customers outside.

Rental income cannot be higher than the market average in the region. As most business parks will be built at the outskirts of the city or the countryside (in case of good transportation links), the rental price per square meter should remain in the lower price category. It would be desirable to use the so-called flat-fee, ie all incubants would be the same amount, regardless of how much space they use.

## Funding

Most of the founding capital for the incubator would come from public sources, ie schools, local government, the Ministry and the like. Everyday expenses incurrcan be additionally covered by sale of services.

## Creating an environment

For incubants' welfare it is necessary to create a suitable environment in which everybody feels comfortable and cozy. Leaving the detailed design aside, it definitely feels good, if a business park has a couple of small kitchen corners and a relaxing area. Some private office space is recommended, also conference rooms, but generally, an open office would be the first option. Open office allows savings in construction costs (material and labor costs, and floor space savings), as well as helping to create synergies between different sectors and workers. Relaxing are is equipped with modern appliances (coffee machine, dishwasher, microwave).

## Technical infrastructure

Inkubandil would be appropriate to use the opportunity of their workroom or garage / parking space, where they could keep their venture during the storage of the necessary materials and equipment. Workplaces are big enough for 2-3 persons would be able to work there on a daily basis.

Incubants would have access to computers with the necessary software: Adobe Design program, AutoCad for drawings, Sony Vegas for video editing. Among the equipment would be a variety of multimedia products, printers, screens, etc. The building is equipped with high-speed Internet 500Mbit / s, which is transmitted wirelessly (Wi-Fi).

In the building or its surroundings it is desirable to provide meals. Offering meals can also be a source of income of a company operating in the incubator. On-site catering supply has the advantage that during busy business hours one does not need to go out to have lunch. The lunch table is good place to exchange views with other incubants and networking.

## Security

For the sake of the building's and equipment's maintenance and safety, it is necessary to install a security system, which is composed of both sensors and surveillance cameras. When there is a valuable asset on the territory, which is easy to move, or there is a risk that random passers-by can get injured, a security fence must be installed to restrict access to the area. Guard recruitment is advisable. Safety equipment could include a remote-opening gate and motion detectors.



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## BUSINESS INCUBATOR

Incubator is open 24/7, and the entrance is granted with a personalized magnetic card, which guarantees the flexibility to do the work when it is needed and when it is possible. But in addition to a cozy office, there would be available substantive support services, which primarily incubants themselves provide to each other. But it certainly for some services, external assistance would be needed.

## Support offered in incubator

New entrepreneurs have more questions than answers. Therefore, the park will engage experienced professionals from different disciplines as mentors. Each incubant is entitled to one mentor, but, if necessary, there could be more than one. Mentors would take the tension off the new entrepreneurs and provide advice. An action plan would be worked out together with clear objectives.

Additional support is available for incubants' sales training. Sales training specialists would be invited from respective companies. The purpose of the training is to give an overview of the organization techniques of sales.

According to the results of the poll conducted among young entrepreneurs, there is a great interest in advice, especially from persons who in the past the company has launched their companies.

### Services

The services offered by the incubator bear two goals. First of all, incubant can benefit from synergy-effect, because the price of the services is shared with the other inhabitants. Second, a broad portfolio of services is an opportunity for incubator to earn extra income to cover the running costs of the incubator.

### Sales support

In today's world, close and difficult competition makes selling the service or product crucial. Selling is not just waiting behind the counter for the client to arrive, but it is a substantial part of work, almost a science. It is said that the sale will begin at the moment when the customer says a firm "no." However, in addition to good sales, it is also necessary to market your product. Since marketing is a cost factor, it is wise to give it more emphasis only when the company has established itself.

### Marketing

We would suggest a broad-based training in marketing management of the company, in which the emphasis is on social media, Facebook, and Google's keywords (AdWords).

Radio, print and television ads are mostly expensive and would not be suitable for a small business. But everything depends on which clientele it is directed at. Any campaign would be considered by our marketing specialists as distinct and unique.

## Legal counseling

Certainly, we cannot ignore the legal issues involving employment contracts and everything associated with them, including specific forms of employment. Incubants receive legal support, which includes counselling on employment contracts and assistance in matters related to dealings with the authorities. In more complex cases and for the participation in the litigation, however, incubators need to turn to professional law firms.

## Project writing

In the portfolio of services offered is also the "Project Writing". With this service, customers can receive advice on whether and how the company would be able to apply for either a local, national or European Union structural funds support.

Because different support schemes are project-based, a new company must know the rules of the game. For a company to develop, to launch new products and to market their products/services, there is a whole range of assistance programs, and it is easy to lose the orientation. Unfortunately, in our economic environment there is no alternative to dealing with projects because competitors are doing it anyway. In order to remain competitive and keep the price of your products / services at a reasonable level, a company needs to make use of different support schemes.

Often the best project writing service comes from outside companies, however, rather than from trying to find out about all the nuances for yourself. However, the basic knowledge is necessary on what is on offer and where one can apply for support.

## Accounting

The accounting package includes accounting services and financial management service. For small start-up company hiring an accountant or CFO is too expensive, therefore such a service might be of interest to incubants.

A company must annually submit the annual report, which only a person with accounting skills is able to do. In addition to the compiling the annual financial statement, a company must upload the report in a complicated digital format. Unfortunately, it is no longer possible to use the PDF format, but all the important data must be entered manually.

It is also necessary to deal with labor taxes and, if the annual turnover reaches 16000 EUR, with the Value Added Tax (VAT). Incubators accounting service could for a modest fee offer such services to incubants.

## Secretarial service / receipt of orders

In high mobility areas of services such as plumbing, electrical or catering work, there is a problem when communicating with customers or authorities by telephone. Answering a

phone call in a situation where, in some cases it is necessary to clean your hands, will interrupted the work. It is also necessary to note during the phone call the location of the customer, and list of works agreed with the date and time.

### **PR service**

The Business Incubator will promote its incubants through its own actions. Achieving a reputation is necessary among both the clients and cooperation partners. As advertising start-up companies is too much expense, a PR service would be helpful.

### **In conclusion**

Our portfolio of services is certainly not exhaustive and should always be kept up-to-date, or even a step ahead of the trends. In general, our incubator is designed to give its "students" a hook instead of a fish. This means that when an incubant needs to make a marketing plan or apply additional funding support for the project, it needs to this independently, we offer our support and guide them with advice.

## Training of incubator employees

### ABC for companies

Starting a company is made simple legally and technically. After entering the Company Registration Portal using either ID card, Mobile ID or a bank link, all necessary steps will be finished without leaving your computer. The portal offers a sample of a company's statute, and the user can also check the availability of the selected variant of the name.

In a few moments, and about a hundred euros later, the new company is created. But here the easy part ends. For the company to actually operate, you first need to open a bank account, manage accounts, etc., etc. Although young people know from the vocational school how the economy works in general, they still need practical advice on how to create a company.

### Taxation

Filing tax declarations and communication with tax authorities is an indispensable duty of every entrepreneur. Until 16,000EUR of annual turnover is reached, life will be easier, because the company needs no VAT-registration.

Payroll calculations are important for both the remuneration for the member of the board as well as the payment of wages of workers hired. Taxes on income must be paid monthly for the previous month. Therefore, the young entrepreneur needs to find out about the VAT and labor taxes calculation and payment of taxes.

### Statistics

Reporting to the Statistical Office is a rather big administrative burden, but it is not the case for start-up companies. When the company becomes larger, larger volumes of statistical data need to be collected and submitted. Understanding the principles of reporting is therefore necessary.

### Food safety

Food safety is regulated by the Food and Veterinary Office. Its agencies need to be consulted by food preparation/catering companies..

### **Environmental protection**

Environmental compliance is monitored more strictly every year, so it should be in enterprises' interest to be familiar requirements. Start-up companies probably do not need a pollution permit, but may need permits for waste storage or use of chemicals.

### **Participation in public procurement**

Procurement affects many businesses, especially in the construction and catering sector. Probably for start-up companies public procurement is not part of the everyday activities in the first years of existence, since they are not able to carry out such a large volume of work and the experience is still modest. Future activities in this field of expertise may be needed, particularly for construction companies and caterers.

The list of trainings could include programming, which would also provide a basic knowledge of the robotics field. It would help incubants be able to engage in product development.

We have deliberately chosen this tactics in order to encourage the incubants to learn by doing.

## SUMMARY

Not everyone is destined to become an entrepreneur. In fact, only a few of those who try out to self-employed or an employer, also succeed. Therefore, we cannot assume that the majority of vocational school graduates choose to become entrepreneurs.

However, we should provide them with a fair chance. Most of the existing obstacles in starting your own business can be removed, by providing basic services through shared economic model, for example. A small start-up can hardly afford to hire a secretary to accept orders from customers, or a bookkeeper to take care of its accounts. It may also be too difficult for the market to go rented an office with the necessary equipment, he must bear all the costs alone. Incubator is the answer to all these needs.